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

(A Nonstock, Not-for-Profit Association)

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 9 - 1 5 7 5 0

C O M P A N Y   N A M E

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

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

120 M. PAULINO ST. COR. P. BURGOS ST. BRGY VII-D SAN PABLO CITY, LAGUNA

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
cardmba9999@cardmri.com	(049) 562-2878	(0928) 520-5769

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
N/A	9/7	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
May S. Dawat	may.dawat@cardmri.com	(049) 562-2878	(0928) 520-5769

CONTACT PERSON's ADDRESS

120 M. Paulino St., Corner P. Burgos St., Brgy. VII-D, San Pablo City, Laguna

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGVFSM007928

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Center for Agriculture and Rural Development (CARD)
Mutual Benefit Association, Inc.
120 M. Paulino St., Corner P. Burgos St., Brgy. VII-D
San Pablo City, Laguna

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. (the Association), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-AR-1 (Group A),
April 3, 2019, valid until April 2, 2022
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8534220, January 4, 2021, Makati City

April 29, 2021

SGVFSM007928

INDEPENDENT AUDITOR'S REPORT

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

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SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.
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April 3, 2019, valid until April 2, 2022
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January 28, 2019, valid until January 27, 2022
PTR No. 8534220, January 4, 2021, Makati City

April 29, 2021

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and Cash Equivalents (Notes 6 and 26)	**P,=591,126,625**	P,=547,505,284
Financial Assets (Note 26)		
Loans and receivables - net (Note 8)	**2,964,304,519**	1,315,512,698
Held-to-maturity investments (Note 7)	**16,573,941,641**	15,558,075,386
Available-for-sale (AFS) financial assets (Note 9)	**1,634,284,391**	1,645,370,276
Accrued Income (Note 10)	**283,510,335**	220,407,218
Property and Equipment - net (Note 11)	**105,354,061**	111,341,570
Right-of-use Assets (Note 21)	**6,792,342**	4,728,698
Investment Properties (Note 12)	**338,650,898**	352,949,431
Investments in Associates (Note 13)	**1,142,545,741**	946,624,769
Pension Asset - net (Note 25)	**49,119,906**	43,261,782
Other Assets (Note 14)	**17,420,790**	17,246,568
	P,=23,707,051,249	P,=20,763,023,680
LIABILITIES AND FUND BALANCE		
Liabilities		
Insurance contract liabilities (Notes 16 and 26)	**P,=10,769,367,158**	P,=9,306,435,713
Retirement fund (Note 17)	**7,108,784,001**	5,990,697,711
Accounts payable and accrued expenses (Notes 15 and 26)	**70,699,966**	43,424,017
Lease liabilities (Note 21)	**6,355,577**	4,801,734
Total Liabilities	**17,955,206,702**	15,345,359,175
Fund Balance		
Appropriated fund balance (Note 28)	**511,061,525**	529,629,710
Unappropriated fund balance	**4,909,099,375**	4,394,749,858
Other comprehensive income (Notes 9, 13 and 25)	**331,683,647**	493,284,937
Total Fund Balance	**5,751,844,547**	5,417,664,505
	P,=23,707,051,249	P,=20,763,023,680

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
REVENUE		
Members' contribution and premiums – micro (Note 18)	**P,=3,759,967,304**	P,=4,355,117,886
Reinsurance' share on gross earned premium on insurance contracts (Note 18)	**(2,478,250)**	(3,031,225)
Net premiums on insurance contracts	**3,757,489,054**	4,352,086,661
Investment income (Note 19)	**566,512,860**	559,374,444
Equity in net earnings of associates – net (Note 13)	**164,254,282**	157,177,654
Rental income (Notes 12 and 21)	**17,015,254**	16,235,175
Others (Note 17)	**3,913,080**	23,936,346
Other revenue	**751,695,476**	756,723,619
	4,509,184,530	5,108,810,280
BENEFITS, CLAIMS AND EXPENSES (Note 16)		
Gross change in insurance contract liabilities	**1,416,533,115**	1,520,383,309
Gross insurance contract benefits and claims paid	**1,885,983,230**	1,719,455,970
Insurance benefits and claims	**3,302,516,345**	3,239,839,279
GENERAL AND ADMINISTRATIVE EXPENSES (Note 20)	**553,937,852**	596,859,838
	3,856,454,197	3,836,699,117
EXCESS OF REVENUE OVER EXPENSES BEFORE PROVISION FOR TAXES	**652,730,333**	1,272,111,163
PROVISION FOR INCOME TAX (Note 23)	**88,281,306**	75,770,402
EXCESS OF REVENUE OVER EXPENSES	**564,449,027**	1,196,340,761
OTHER COMPREHENSIVE INCOME		
Item that will be reclassified to profit or loss in subsequent periods		
Fair value gain (loss) on AFS financial assets (Note 9)	**(166,248,469)**	255,690,405
Items that will not be reclassified to profit or loss in subsequent periods		
Remeasurement gains on defined benefit plan (Note 25)	**5,317,567**	6,268,786
Equity in other comprehensive losses of an associate (Note 13)	**(670,388)**	(1,100,442)
	(161,601,290)	260,858,749
TOTAL COMPREHENSIVE INCOME	**P,=402,847,737**	P,=1,457,199,510

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN FUND BALANCE

			Other Comprehensive Income				
	Appropriated Fund Balance (Note 28)	**Unappropriated Fund Balance**	**Fair Value Gain (Loss) on AFS Financial Assets** (Note 9)	**Remeasurement of Actuarial Gains (Losses)** (Note 25)	**Equity in other comprehensive income (loss) of an associate** (Note 13)	**Total**	**Total Fund Balance**
At January 1, 2020	**P,=529,629,710**	**P,=4,394,749,858**	**P,=486,683,965**	**P,=3,670,687**	**P,=2,930,285**	**P,=493,284,937**	**P,=5,417,664,505**
Appropriation during the year	**50,099,510**	**(50,099,510)**	–	–	–	–	–
Utilization of appropriation	**(68,667,695)**	–	–	–	–	–	**(68,667,695)**
Total comprehensive income:							
Excess of revenue over expenses	–	**564,449,027**	–	–	–	–	**564,449,027**
Other comprehensive income (loss)	–	–	**(166,248,469)**	**5,317,567**	**(670,388)**	**(161,601,290)**	**(161,601,290)**
At December 31, 2020	**P,=511,061,525**	**P,=4,909,099,375**	**P,=320,435,496**	**P,=8,988,254**	**P,=2,259,897**	**P,=331,683,647**	**P,=5,751,844,547**
At January 1, 2019	P,=224,304,944	P,=3,559,667,260	P,=230,993,560	(P,=2,598,099)	P,=4,030,727	P,=232,426,188	P,=4,016,398,392
Appropriation during the year	364,832,531	(364,832,531)	–	–	–	–	–
Reversal of appropriations	(3,578,072)	3,574,368					(3,704)
Utilization of appropriation	(55,929,693)	–	–	–	–	–	(55,929,693)
Total comprehensive income:							
Excess of revenue over expenses	–	1,196,340,761	–	–	–	–	1,196,340,761
Other comprehensive income (loss)	–	–	255,690,405	6,268,786	(1,100,442)	260,858,749	260,858,749
At December 31, 2019	P,=529,629,710	P,=4,394,749,858	P,=486,683,965	P,=3,670,687	P,=2,930,285	P,=493,284,937	P,=5,417,664,505

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses before provision for current and final tax	**P,=652,730,333**	P,=1,272,111,163
Adjustments for:		
Increase in aggregate reserves (Note 16)	**1,416,533,115**	1,520,382,466
Interest income (Notes 6, 7, 8 and 19)	**(445,850,604)**	(388,674,929)
Dividend income (Notes 9 and 19)	**(120,662,256)**	(169,885,744)
Equity in net earnings of an associate - net (Note 13)	**(164,254,282)**	(157,177,654)
Depreciation (Notes 11, 12, and 21)	**34,376,218**	32,744,305
Amortization of bond discount (Note 7)	**(2,721,207)**	(10,398,377)
Reversal of or provision for credit losses (Note 8)	**(4,876,603)**	3,596,596
Pension expense – net (Note 25)	**1,455,074**	(29,439)
Reversal of impairment loss or impairment loss on property and equipment and investment properties (Notes 11 and 12)	**971,496**	(1,098,425)
Interest expense on lease liability (Note 21)	**397,183**	422,093
Gain on disposal of property and equipment (Note 11)	**(160,780)**	–
Cash generated from operations before changes in working capital	**1,367,937,687**	2,101,992,055
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**151,169,336**	(133,620,414)
Short-term investments	**19,236,177**	(156,835,416)
Other current assets	**(352,026)**	136,936
Increase (decrease) in:		
Retirement fund	**1,118,086,290**	1,151,446,717
Accounts payable and accrued expenses	**27,275,949**	(15,443,418)
Claims payable	**46,398,331**	2,655,170
Net cash generated from operations	**2,729,751,744**	2,950,331,630
Income taxes paid	**(88,281,306)**	(75,770,402)
Utilization of appropriation (Note 28)	**(68,667,695)**	(55,929,693)
Contributions paid (Note 25)	**(1,995,631)**	(1,768,847)
Net cash provided by operating activities	**2,570,807,112**	2,816,862,688
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**382,747,487**	318,185,910
Cash dividends received	**157,081,609**	188,464,724
Acquisitions of:		
Held-to-maturity investments (Note 7)	**(1,304,172,348)**	(3,098,694,594)
Available-for-sale financial assets (Note 9)	**(155,170,975)**	(119,031,630)
Long-term investments (Note 8)	**(1,814,320,731)**	–
Investment properties (Note 12)	**–**	(64,029,102)
Investments in associates (Note 13)	**(68,756,430)**	(39,775,749)
Property and equipment (Note 11)	**(7,543,910)**	(13,553,512)

(Forward)

	Years Ended December 31	
	2020	2019
Proceeds from sale/maturities of:		
Held-to-maturity investments (Note 7)	**P,=291,027,300**	P,=240,885,990
Available-for-sale financial assets (Note 9 and 25)	**8,391**	9,600
Property and equipment (Note 11)	**161,731**	–
Receipt of refund from the building contractor (Notes 11 and 12)	**–**	8,674,443
Net cash flows used in investing activities	**(2,518,937,876)**	(2,578,863,920)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities (Note 21)	**(8,247,895)**	(5,789,436)
Net cash used in financing activities	**(8,247,895)**	(5,789,436)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**43,621,341**	232,209,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**547,505,284**	315,295,952
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P,=591,126,625**	P,=547,505,284

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

As a non-stock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes (VAT) except for those activities which are conducted for profit and are not directly related to its main purpose as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (BIR).

In June 2015, the Association obtained its registration from BIR as a VAT registered entity in relation to its rental income earned from investment properties. This income is subjected to current income tax and VAT.

The registered office address of the Association is 120 M. Paulino St., Corner P. Burgos St., Brgy. VII-D, San Pablo City, Laguna.

2. Basis of Preparation and Statement of Compliance

Basis for Preparation
The Association's financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine peso (P,=), which is the Association's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

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

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations effective as at January 1, 2020. The Association has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Association.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Association enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018
  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments had no impact on the financial statements of the Association.

Future Changes in Accounting Policies

The Association has not applied the succeeding amended PFRS which are not yet effective for the year ended December 31, 2020. Unless otherwise indicated, the succeeding amended PFRS will not significantly impact the financial statements:

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to Conceptual Framework*
- Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018 – 2020 Cycle
    - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
    - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classifications of Liabilities as Current and Non-current*
- Amendments to PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

    - A specific adaptation for contracts with direct participation features (the variable fee approach)
    - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The Association is currently assessing the impact of adopting PFRS 17.

On December 28, 2018, IC issued circular letter 2018-69 stating that it would further defer the implementation of PFRS 17 to January 1, 2023. On the same circular letter, IC instructed pre-need companies, health maintenance organizations and mutual benefit associations to maintain to comply with the current accounting standards until further required by IC to comply with PFRS 17. However, voluntary compliance is not precluded in implementing PFRS 17.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Accounting Standards Effective but not yet Adopted

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instrument standard before implementing the new insurance contract standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply the approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  Qualifying for temporary exemption from PFRS 9
  The Association applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022.

  The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:

  - The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and
  - The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:
    1. Greater than 90 percent; or
    2. Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

  The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date December 31, 2015 and before December 31, 2018. Applying the requirements, the Association performed the predominance assessment using the Association's statement of financial position as of December 31, 2015.

  The Association concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Association's gross liabilities arising from contracts within the scope of PFRS 4 represented 94%

of the total carrying amount of all its liabilities, and the Association did not engage into any significant activities not connected with insurance. Since December 31, 2015, there has been no change in the activities of the Association that requires reassessment of the use of the temporary exemption.

4. Summary of Significant Accounting Policies

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

Fair Value Measurement
The Association measures financial instruments at fair value. Also, fair values of financial instruments measured at amortized cost and non-financial assets and investment properties carried at cost are disclosed in Note 26.

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

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

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

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

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

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

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

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

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

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of assets, liabilities and fund balance when the Association becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition of financial instruments

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

Day 1 profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Association recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the Day 1 profit amount.

Loan and receivables

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

Short-term Investments

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

Long-term Investments
Long-term investments are non-current assets that are not used in operating activities to generate revenues. In other words, long-term investments are assets that are held for more than one year or accounting period and are used to create other income outside of the normal operations of the Association.

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

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

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

These investments are initially recorded at cost, being the fair value of the consideration paid for the acquisition of the investment, including all transaction costs directly attributable to the acquisition. After initial recognition, AFS financial assets are subsequently measured at fair value. Interest earned on holding AFS financial assets are reported as interest income using the EIR. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Reserve for fluctuation in value of AFS financial assets” (net of tax, where applicable) in the other comprehensive income in the fund balance section of the Association’s statement of financial position. When the security is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the Association’s statement of comprehensive income.

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

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

As of December 31, 2020 and 2019, AFS financial assets include investments in mutual fund, investments in unquoted securities and units in trust fund. Investments in mutual funds and in unit in trust fund are initially recorded at fair value and revalued at year-end in reference to published net asset value. The investments in unquoted securities are initially recorded at cost, being the fair value of the investment at the time of acquisition. The investments in mutual funds are carried at fair value.

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Association having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Association’s “Accounts payable and accrued expenses”, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liability).

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Association assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Association and all of the counterparties.

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

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial

recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

- the right to receive cash flows from the asset has expired;
- the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Association has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Association has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

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

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

Property and Equipment
The Association's property and equipment consist of land, building, equipment and right-of-use assets that do not qualify as investment properties.

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

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

	Years
Building	10-15
Land improvement	10
Transportation equipment	7
Computer equipment	5
Office equipment	3
Office furniture and fixtures	3

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

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

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

Investment Properties

Investment properties comprise of land and building that are held to earn rentals or capital appreciation or both and that are not occupied by the Association.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives (EUL) of assets as follows:

	In Years
Building	10-15

Construction in-progress is carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupancy.

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in which it arises.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

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

Impairment of Nonfinancial Assets

The Association assesses at each end of the reporting period whether there is an indication that property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

Members' Contribution and Premiums
Contributions and premiums are recognized when collected. When contributions and premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association collects its contributions and premiums through the following affiliates that are considered as collecting institutions: (a) CARD Bank, Inc., (b) CARD, Inc., (c) CARD SME Bank, Inc., (d) CARD MRI Rizal Bank, Inc. (e) CARD Leasing and Finance Corp., and (f) CARD Employee Multi-Purpose Cooperative and all BOAT partners.

Surrender charge
Surrender charge pertains to the fee imposed by the Association for the cancellation of the member's policy. This is intended for the administration costs incurred by the Association. Surrender charge is recognized when earned. In 2019, the Association discontinued charging surrender charge upon membership cancellation.

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

Rental income
Rental income is the income generated from the investment properties of the Association and recognized when earned.

Other income
Income from other sources is recognized when earned.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated in compliance with

the statutory requirements as set by the IC where the assumptions used are based on 50.00% of gross premiums of the Association for the year. Valuation standards for life insurance policy reserves, requiring insurance companies to calculate the reserves for traditional life insurance policies with a term of one year or less using unearned premium method.

Golden life contract liabilities
Golden life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for golden life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method wherein the assumptions used are the 1980 Commissioners Standard Ordinary (CSO) Male - Age Nearest Birth Table for mortality and 4.00% as discount rate per annum. Both assumptions are duly approved by IC.

Golden Life Insurance Program (GLIP)
Golden Life Insurance Program (GLIP) contract liabilities are recognized when contracts are entered into and the premiums are recognized. The policy reserves for Golden Life is calculated using the Net Premium Valuation (NPV) Method. It is calculated as the expected present value of future benefits less the expected value of the future premiums arising from the policy. The assumptions used are discount rate and mortality rate which are based on the pricing assumptions as indicated in the Actuarial Notes. The discount rate is at 3.75% per annum and 100.00% of 1980 Commissioner's Standard Ordinary (CSO) Male – Age Nearest Birthday for the mortality rate.

Basic Life Insurance Program (BLIP) Extension Plan
Basic Life Insurance Program (BLIP) Extension Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserves for BLIP Extension Plan is calculated using the Net Premium Valuation (NPV) Method. It is calculated as the expected present value of future benefits less the expected value of the future premiums arising from the policy. The assumptions used are discount rate and mortality rate which are based on the pricing assumptions as indicated in the Actuarial Notes. The discount rate is at 3.50% per annum and the mortality rate used is 100.00% of the Philippine Intercompany Mortality Table. These assumptions are duly approved by the Insurance Commission.

Katuparan Plan
Katuparan Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for the Katuparan Plan is calculated as 50% of the gross premium collection for the year.

Remitter Protek Plan
Remitter Protek Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for Remitter Protek Plan is computed using the unearned net premiums reserves method.

Family Security Plan
Family Security Plan contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for Family Security Plan is calculated using the Unearned Premium Reserve's 24th method.

Loan redemption contract liabilities
Loan redemption contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for loan redemption is computed using the unearned net premium reserves method.

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

Claim Costs
Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are measured using the chain ladder method, based on a reasonable estimate of ultimate claim amounts. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

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

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

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

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

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

<u>Leases</u>
The Association determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Association as a lessee
The Association applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Association recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments

- Right-of-use assets
  At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Association recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Association measures the right-of-use assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

  Unless the Association is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

- Lease liabilities
  At the commencement date of the lease, the Association recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Association's incremental borrowing rate with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Association and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date of the lease, the Association measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- Short-term leases and leases of low-value assets
  The Association applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of office spaces and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

The Association as a lessor
In operating leases where the Association does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Association recognizes rental income on a straight-line basis over the lease terms. The Association adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Association recognizes contingent rents as revenue in the period in which they are earned.

Income Tax
Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the end of the reporting period.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

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

   The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Association defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

b. *Classification of HTM investments.*
The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value and not at amortized cost. The Association has HTM investments amounting to ₱16.57 billion and ₱15.56 billion as of December 31, 2020 and 2019, respectively (see Note 7). As of December 31, 2020 and 2019, the fair value of HTM investments amounted to ₱17.68 billion and ₱15.85 billion, respectively (see Note 7).

c. *Fair value of financial instruments*
The Association carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on

either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

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

The fair values of the Association's financial instruments follow (see Note 26):

	2020	2019
Financial assets	**₱23,484,278,447**	₱19,580,929,271
Financial liabilities	**74,240,881**	45,422,277

Estimates

a. Impairment of nonfinancial assets

The Association assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Association considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

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

For the year ended December 31, 2020, impairment loss recognized for property and equipment and investment properties was nil and ₱0.97 million, respectively (see Notes 11 and 12). Gain on reversal of impairment loss was recognized in 2019 amounting to ₱0.42 million for property and equipment and ₱0.67 million for investment properties (see Notes 11 and 12).

The following table sets forth the fair values of investment properties as of December 31:

	2020	2019
Investment properties (Note 12)	**₱410,474,022**	₱730,289,423

b. Impairment of receivables

The Association reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Total receivables net of allowance for impairment losses amounted to ₱38.29 million and ₱184.59 million as of December 31, 2020 and 2019, respectively (see Note 8). Allowance for probable losses amounted to ₱1.69 million and ₱6.56 million as of December 31, 2020 and 2019, respectively (see Note 8).

c. *Impairment of AFS financial assets*
The Association determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Association evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2020 and 2019, the fair value of AFS financial assets amounted to ₱1.63 billion and ₱1.65 billion, respectively (see Note 9). No impairment loss recognized on AFS financial assets in 2020 and 2019.

d. *Retirement and other employee benefits*
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net pension asset amounted to ₱49.12 million and ₱43.26 million as of December 31, 2020 and 2019, respectively (see Note 25).

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

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

e. *Provision for reserves*
The estimation of ultimate liability arising from claims made under life insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Association is exposed to risk. These estimates are based on standard industry and national mortality and morbidity tables. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made to future investment income arising from the assets backing life insurance contracts. These estimates are based on weighted average rate of return arising from the assets backing life insurance contracts. Refer to Note 26 for the key assumptions used in the estimation of provision for reserves.

d. *Contingencies*
The Association estimates basic contingency reserve for payment of claims or obligations computed on the basis of a prudent prospective actuarial assumptions. Basic contingency reserve is set on Membership Certificates to meet the contractual obligation, other than the Member's Equity Value, as it falls due. The estimate is based on mortality, disability, and morbidity rate assumptions.

6. Cash and Cash Equivalents

This account consists:

	2020	2019
Cash on hand	**₱120,000**	₱216,900
Cash in banks	**160,998,942**	186,738,622
Cash equivalents	**430,007,683**	360,549,762
	₱591,126,625	₱547,505,284

Cash in banks earns interest at the prevailing bank deposit rates ranging from 0.05% to 1.50% in 2020 and 2019.

Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Association and earn interest at the prevailing rates ranging from 0.10% to 3.50% and 3.12% to 3.80% in 2020 and 2019, respectively.

Interest income earned from cash and cash equivalents amounted to ₱9.81 million and ₱9.95 million in 2020 and 2019, respectively (see Note 19). Accrued income from cash and cash equivalents amounted to ₱0.38 million and ₱1.26 million as of December 31, 2020 and 2019, respectively (see Note 10).

7. Held-to-Maturity Investments

As of December 31, 2020 and 2019, the carrying amounts and fair values of these securities follow:

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed treasury notes	**₱10,722,201,848**	**₱11,427,661,804**	₱10,307,395,292	₱10,619,503,784
Retail treasury bonds	**5,097,303,279**	**5,437,762,973**	4,549,754,145	4,610,632,686
Corporate bonds	**744,436,514**	**803,039,979**	699,344,772	617,279,272
Treasury bills	**10,000,000**	**10,000,000**	1,581,177	1,609,341
	₱16,573,941,641	**₱17,668,464,756**	₱15,558,075,386	₱15,849,025,083

These investments bear annual interest rates which ranged from 1.25% to 8.06% and 3.25% to 8.06% in 2020 and 2019, respectively, and will mature between one (1) and nineteen (19) years from the statements of financial position date. Interest income from these investments net of premium amortization amounted to ₱403.52 million and ₱356.07 million in 2020 and 2019, respectively (see Note 19). Accrued income from these investments amounted to ₱142.87 million and ₱126.80 million in 2020 and 2019, respectively (see Note 10).

The rollforward analysis of HTM investments follows:

	2020	2019
At January 1	**₱15,558,075,386**	₱12,689,868,405
Additions	**1,304,172,348**	3,098,694,594
Amortization of bond discount	**2,721,207**	10,398,377
Maturities	**(291,027,300)**	(240,885,990)
At December 31	**₱16,573,941,641**	₱15,558,075,386

As of December 31, 2020 and 2019, HTM investments include government securities classified as guaranty fund amounting to ₱225.59 million and ₱225.06 million, respectively. These investments are deposited with the IC, in accordance with the provisions of Section 405 of the 2013 Revised Insurance Code, as security for the benefit of policyholders and creditors of the Association.

8. Loans and Receivables

As of December 31, 2020 and 2019, the Association's loans and receivables are as follows:

	2020	2019
Receivables – net	**₱38,292,986**	₱184,585,719
Short-term investments	**257,315,208**	276,551,385
Long-term investments	**2,668,696,325**	854,375,594
	₱2,964,304,519	₱1,315,512,698

Receivables

This account consists of:

	2020	2019
Receivables from:		
Related parties (Note 22)	**₱4,670,621**	₱27,007,901
Members and employees	**2,006,367**	1,752,094
Loans receivable (Note 22)	**14,610,909**	19,960,000
Advances for future stock subscription (Note 9)	**–**	121,273,000
Advances to EMSHI	**15,000,000**	–
Others	**3,691,098**	21,157,323
	39,978,995	191,150,318
Less: Allowance for probable losses	**1,686,009**	6,564,599
	₱38,292,986	₱184,585,719

Receivables from related parties pertain to premiums collected by related parties from the Association's members. These are generally on 1 to 30 day terms.

Receivables from members and employees include receivables from the Association's members of Build-Operate and Transfer (BOAT) program representing unremitted premiums. It also includes receivables from the Association's employees due to the excess claims and benefits disbursed to its members. These receivables are expected to be settled and collected within thirty (30) days.

Loans receivable pertain to loan agreements of the Association with UniHealth Quezon Hospital and Medical Center and CARD MRI Property Holdings, Inc (CMPHI). The movements in loans receivable follow:

	2020	2019
At January 1	**₱19,960,000**	₱6,460,000
Additions	**–**	15,000,000
Principal collections	**(5,349,091)**	(1,500,000)
At December 31	**₱14,610,909**	₱19,960,000

Significant terms and conditions of the loan follows:

	2020			
	Outstanding balance	**Release date**	**Interest rate**	**Terms**
UniHealth Quezon Hospital and Medical Center	**₱4,110,910**	**September 19, 2017**	**6% per annum payable quarterly**	**Quarterly interest on the first two years and Principal plus interest starting 3rd year of the loan.**
CARD MRI Property Management, Inc.	**10,500,000**	**May 16, 2019**	**5.711% per annum**	

	2019			
	Outstanding balance	Release date	Interest rate	Terms
UniHealth Quezon Hospital and Medical Center	₱6,460,000	September 19, 2017	6% per annum payable quarterly	Quarterly interest on the first two years and Principal plus interest starting 3rd year of the loan.
CARD MRI Property Management, Inc.	13,500,000	May 16, 2019	5.711% per annum	

Advances to Evangelista Medical Specialty Hospital, Inc. (EMSHI) pertains to payment made for the acquisition of 10,800 shares of EMSHI representing 7.2% ownership. Payment was made in 2020 but the deed of sale was executed on January 8, 2021 and the shares are not yet issued to the Association as of December 31, 2020.

Total interest income received from the loans receivable amounted to ₱0.87 million and ₱0.81 million in 2020 and 2019, respectively (see Note 19).

In October 2020, CARD Bank, Inc. (CBI) have issued to the Association the shares which corresponds to the advances for stocks paid in previous years amounting to ₱121.27 million (see Note 9).

As of December 31, 2020 and 2019, allowance for probable losses for receivables determined based on specific identification and assessment follows:

	Receivables from Related Parties (Note 22)	**Other Receivables**	**Total**
At January 1, 2019	₱475,729	₱2,492,145	₱2,967,874
Provision for probable losses	1,279,120	2,317,605	3,596,725
At December 31, 2019	**₱1,754,849**	**₱4,809,750**	**₱6,564,599**
Write-off	–	**(1,987)**	**(1,987)**
Reversal of provision for probable losses	**(603,145)**	**(4,273,458)**	**(4,876,603)**
At December 31, 2020	**₱1,151,704**	**₱534,305**	**₱1,686,009**

Short Term Investments
Short-term investments are money market placements with maturities of more than three (3) months but less than one (1) year and bear annual interest at rates that ranged from 0.38% to 4.00% in 2020 and 1.25% to 4.00% in 2019. Interest income earned from these investments amounted to ₱7.07 million and ₱4.30 million in 2020 and 2019, respectively (see Note 19).

The rollforward analysis of short-term investments follows:

	2020	2019
At January 1	**₱276,551,385**	₱119,715,969
Additions	**325,325,967**	293,504,436
Maturities	**(344,562,144)**	(136,669,020)
At December 31	**₱257,315,208**	₱276,551,385

Long Term Investments
The long-term investments are placements with maturity of more than one (1) year but less than five (5) years that bear annual interest of 4.00% to 6.00% in 2020 and 2019. Interest income earned from these investments amounted to ₱24.59 million and ₱18.35 million in 2020 and 2019, respectively (see Note 19).

The rollforward analysis of long-term investments follows:

	2020	2019
At January 1	**₱854,375,594**	₱854,375,594
Additions	**1,814,320,731**	–
At December 31	**₱2,668,696,325**	₱854,375,594

Accrued interest income from total loans and receivables amounted to ₱140.26 million and ₱92.35 million in 2020 and 2019, respectively (see Note 10).

9. Available-for-Sale Financial Assets

This account consists of:

	2020	2019
Unquoted equity securities	**₱1,084,243,217**	₱1,108,241,463
Mutual funds	**473,609,078**	464,070,729
Unit Investment Trust Fund (UITF)	**76,432,096**	73,058,084
	₱1,634,284,391	₱1,645,370,276

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

	Unquoted Equity Securities	**Mutual Funds**	**UITF**	**Total**
At January 1, 2019	₱819,115,760	₱421,611,239	₱29,930,842	₱1,270,657,841
Additions	79,023,400	–	40,008,230	119,031,630
Fair value gains	210,102,303	42,459,490	3,128,612	255,690,405
Disposal	–	–	(9,600)	(9,600)
At December 31, 2019	**₱1,108,241,463**	**₱464,070,729**	**₱73,058,084**	**₱1,645,370,276**
Additions	**155,170,975**	**–**	–	**155,170,975**
Fair value gains (losses)	**(179,169,221)**	**9,538,349**	**3,382,403**	**(166,248,469)**
Disposal	**–**	**–**	**(8,391)**	**(8,391)**
At December 31, 2020	**₱1,084,243,217**	**₱473,609,078**	**₱76,432,096**	**₱1,634,284,391**

Investments in unquoted equity shares pertain to the Association's investments in preferred shares of CARD Bank, Inc., and CARD MRI Rizal Bank, and common shares of CARD Leasing and Finance Corporation, UniHealth, Inc. and Rizal College of Laguna.

Details of the Association's investments in unquoted equity securities follow:

	2020			2019		
	Amount	**Shares**	**Percentage of ownership**	Amount	Shares	Percentage of ownership
CARD Bank, Inc.*	**₱966,262,877**	**3,783,776**	**66.17%**	₱1,005,762,446	3,148,807	63.00%
CARD MRI Rizal Bank, Inc.*	**80,443,600**	**402,218**	**70.88%**	86,138,833	354,394	70.88%
CLFC	**19,563,602**	**40,000**	**4.00%**	15,840,184	40,000	4.00%
Rizal College of Laguna	**17,473,138**	**12**	**0.04%**	–	–	–
UniHealth, Inc.	**500,000**	**500**	**0.13%**	500,000	500	0.13%
	₱1,084,243,217			₱1,108,241,463		

**Ownership in the preferred shares*

Preferred shareholders CARD Bank, Inc. and CARD MRI Rizal Bank, Inc. are entitled to a dividend rate of 6.00% and 8.00% per annum, respectively. Preferred shares in CARD Bank, Inc. and CARD MRI Rizal, Inc. are cumulative, non-voting and non-redeemable.

In 2020 and 2019, the Association subscribed to additional 28,604 and 214,299 preferred shares of CARD Bank, Inc., respectively, at ₱200 par value with a total amount of ₱5.72 million and ₱359.02 million, respectively. Dividends received from this investment amounted to ₱111.11 million and ₱147.46 million in 2020 and 2019 (see Note 19).

In 2020 and 2019, the Association owns 402,218 and 354,394 preferred shares of CARD MRI Rizal Bank, Inc. amounting to ₱97.76 million and ₱86.14 million, respectively. In 2020 and 2019, the Association received dividend income from this investment amounting to ₱8.55 million and ₱22.43 million, respectively.

In 2020, the Association acquired 12 founder's share of Rizal College of Laguna amounting to ₱18.61 million (see Note 15).

Investments in mutual funds have the following details:

	2020		2019	
	Amount	**Units**	Amount	Units
Sun Life Prosperity Bond Fund	**₱267,470,584**	**83,430,732**	₱256,624,587	83,430,732
Sun Life Peso Balance Fund	**94,004,458**	**26,306,727**	101,643,932	26,306,727
Philam Bond Fund	**112,134,036**	**24,194,976**	105,802,210	24,194,976
	₱473,609,078		₱464,070,729	

The increase and decrease in reserve for fluctuation in value of the investments in available-for-sale investments amounted to ₱166.25 million decrease and ₱255.69 million increase in 2020 and 2019, respectively. This is presented as "Other comprehensive gain/(losses)" in the statements of comprehensive income.

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

	2020	2019
At January 1	**₱486,683,965**	₱230,993,560
Fair value gains (losses) on AFS financial assets		
Unquoted equity shares	**(179,169,221)**	210,102,303
Mutual funds	**9,538,349**	42,459,490
UITF	**3,382,403**	3,128,612
At December 31	**₱320,435,496**	₱486,683,965

10. Accrued Income

This account consists of:

	2020	2019
Interest receivable on:		
Cash and cash equivalents (Note 6)	**₱376,881**	₱1,255,764
Held-to-maturity investments (Note 7)	**142,874,677**	126,799,215
Loans and receivables (Note 8)	**140,258,777**	92,352,239
	₱283,510,335	₱220,407,218

11. **Property and Equipment - net**

The rollforward analysis of this account follow:

	2020							
	Land	**Land improvement**	**Transportation equipment**	**Computer and office equipment**	**Office furniture and fixtures**	**Building**	**Construction in - progress**	**Total**
Cost								
At January 1	**₱44,793,012**	**₱1,287,428**	**₱464,181**	**₱24,457,657**	**₱4,717,493**	**₱87,278,655**	**₱–**	**₱162,998,426**
Additions	**–**	**–**	**–**	**4,967,592**	**356,272**	**2,220,046**	**–**	**7,543,910**
Derecognition	**–**	**–**	**(101,733)**	**(95,554)**	**(28,728)**	**–**	**–**	**(226,015)**
At December 31	**44,793,012**	**1,287,428**	**362,448**	**29,329,695**	**5,045,037**	**89,498,701**	**–**	**170,316,321**
Accumulated depreciation								
At January 1	**–**	**283,500**	**464,176**	**17,866,563**	**3,914,719**	**29,127,898**	**–**	**51,656,856**
Depreciation (Note 20)	**–**	**128,746**	**–**	**4,021,880**	**486,433**	**8,893,409**	**–**	**13,530,468**
Derecognition	**–**	**–**	**(101,733)**	**(94,603)**	**(28,728)**	**–**	**–**	**(225,064)**
At December 31	**–**	**412,246**	**362,443**	**21,793,840**	**4,372,424**	**38,021,307**	**–**	**64,962,260**
Net book value	**₱44,793,012**	**₱875,182**	**₱5**	**₱7,535,855**	**₱672,613**	**₱51,477,394**	**₱–**	**₱105,354,061**

	2019							
	Land	Land improvement	Transportation equipment	Computer and office equipment	Office furniture and fixtures	Building	Construction in - progress	Total
Cost								
At January 1	₱44,793,012	₱825,653	₱464,181	₱18,838,602	₱4,479,877	₱86,013,857	₱2,275,776	157,690,958
Additions	–	461,775	–	6,604,426	579,176	5,908,135	–	13,553,512
Derecognition	–	–	–	–	–	(7,344,929)	–	(7,344,929)
Retirement/others	–	–	–	(985,371)	(341,560)	–	–	(1,326,931)
Reclassifications	–	–	–	–	–	2,275,776	(2,275,776)	–
Reversal of impairment	–	–	–	–	–	425,816		425,816
At December 31	44,793,012	1,287,428	464,181	24,457,657	4,717,493	87,278,655	–	162,998,426
Accumulated depreciation								
At January 1	–	181,691	464,176	15,721,337	3,622,389	19,838,078	–	39,827,671
Depreciation (Note 20)	–	101,809	–	3,130,597	633,890	9,289,820	–	13,156,116
Retirement	–	–	–	(985,371)	(341,560)	–	–	(1,326,931)
At December 31	–	283,500	464,176	17,866,563	3,914,719	29,127,898	–	51,656,856
Net book value	₱44,793,012	₱1,003,928	₱5	₱6,591,094	₱802,774	₱58,150,757	₱–	₱111,341,570

Gain on retirement of computer and office equipment, office furniture and fixtures and building amounted to ₱0.16 million and nil in 2020 and 2019, respectively.

As if December 31, 2020 and 2019, the cost of fully depreciated property and equipment still in use amounted to ₱17.58 million and ₱13.51 million, respectively.

Depreciation of property and equipment included in the general and administrative expenses amounted to ₱13.53 million and ₱13.15 million in 2020 and 2019, respectively

12. **Investment Properties - net**

The rollforward analyses of this account follow:

	2020		
	Land	**Building**	**Total**
Cost	**₱271,423,726**	**₱134,337,925**	**₱405,761,651**
Accumulated depreciation			
At January 1	–	**52,812,220**	**52,812,220**
Depreciation (Note 20)	–	**13,327,037**	**13,327,037**
At December 31	–	**66,139,257**	**66,139,257**
Impairment loss	**(971,496)**	–	**(971,496)**
Net book value	**₱270,452,230**	**₱68,198,668**	**₱338,650,898**

	2019		
	Land	Building	Total
Cost			
At January 1	₱210,873,040	₱136,196,389	₱347,069,429
Additions	60,550,686	3,478,415	64,029,101
Retirement/Others	–	(6,009,488)	(6,009,488)
Gain on reversal	–	672,609	672,609
At December 31	271,423,726	134,337,925	405,761,651
Accumulated depreciation			
At January 1	–	38,925,644	38,925,644
Depreciation (Note 20)	–	13,886,576	13,886,576
At December 31	–	52,812,220	52,812,220
Net book value	₱271,423,726	₱81,525,705	₱352,949,431

The investment properties have a total fair value of ₱410.47 million and ₱730.29 million as of December 31, 2020 and 2019, respectively. The fair value of the properties is based on valuation performed by an independent valuer of CARD MRI Organization and Administration Unit with a recognized and relevant professional qualification and with recent experience in the location and category of the investment properties being valued. The appraised value of investment property is classified under Level 3 of fair value hierarchy. This is determined using sales comparison approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered. The properties used as basis for comparison are situated within the subject building and land nearby. Comparison would be premised on the factors such as floor level location, interior finishes, parking slot allocation and facilities offered and the time element.

The Association has determined that the highest and best use of the property is its current use.

As of December 31, 2020 and 2019, no investment has been pledged as collateral or security for any of the Association's liabilities.

The Association earned rental income amounting to ₱17.02 million and ₱16.24 million from its investment properties in 2020 and 2019, respectively (see Note 21).

Depreciation of investment property included in the general and administrative expenses amounted to ₱13.33 million and ₱13.89 million in 2020 and 2019, respectively.

13. **Investments in Associates**

This account consists of the following:

	2020	2019
Acquisition cost	**₱508,141,233**	₱467,829,253
Placements during the year	**68,756,430**	40,311,980
Accumulated equity in net earnings	**563,388,182**	435,553,252
Accumulated equity in other comprehensive income	**2,259,896**	2,930,284
	₱1,142,545,741	₱946,624,769

The total undistributed accumulated equity in associate's net earnings are included in the Association's unappropriated fund balance.

Details of the Association's investments in associates follow:

	2020		2019	
	Amount	**Percentage***	Amount	Percentage*
CPMI	**₱802,458,965**	**46.08%**	₱677,532,699	46.08%
CMIT	**146,797,667**	**37.58%**	119,007,276	40.00%
CMPMI	**129,937,772**	**35.00%**	114,847,802	40.00%
CMHI	**31,945,754**	**25.00%**	8,554,351	25.00%
BotiCARD	**21,215,609**	**30.00%**	19,468,227	30.00%
CARD Astro Laboratories, Inc.	**9,085,224**	**32.00%**	6,015,095	28.00%
CMPuHI	**858,135**	**30.00%**	779,373	30.00%
CMHTI	**246,615**	**20.00%**	419,946	20.00%
	₱1,142,545,741		₱946,624,769	

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

CARD Pioneer Microinsurance, Inc. (CPMI)

The details of this investment follow:

	2020	2019
Acquisition cost	**₱278,982,753**	₱278,982,753
Accumulated equity in net earnings		
At January 1	**397,564,144**	277,357,677
Equity in net earnings	**125,596,725**	120,206,467
At December 31	**523,160,869**	397,564,144
Accumulated equity in other comprehensive income		
At January 1	**985,801**	985,801
Equity in other comprehensive loss	**(670,458)**	–
At December 31	**315,343**	985,801
	₱802,458,965	₱677,532,696

On July 16, 2013, the Association entered into an agreement with CPMI for the purchase of 2,303,428 shares at ₱100 par value representing 47.00% ownership in CPMI. On September 30, 2013, the consideration paid to CPMI amounted to ₱257.98 million. No goodwill was recognized since the consideration paid is equal to the proportionate ownership in CPMI. In 2014, an amount of ₱0.06 million was added to the investment in CPMI representing adjustments at the time of its acquisition.

In 2016, the Association invested additional ₱27.74 million in CPMI representing contributed surplus in order for CPMI to meet the minimum capitalization requirement by IC. Moreover, the ₱65.47 million equity in net earnings is net of the ₱6.79 million dilution on investment in CPMI resulting from the decrease of the Association's percentage ownership from 47.00% to 46.08% in December 2016. This decrease is the result of the Association's waiver of its pre-emptive right over the remaining unissued authorized capital stock of CPMI.

CARD MRI Information Technology, Inc. (CMIT)

The details of this investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱86,000,000**	₱79,087,000
Placements	**26,363,700**	6,913,000
At December 31	**112,363,700**	86,000,000
Accumulated equity in net earnings		
At January 1	**31,453,871**	15,868,428
Equity in net earnings	**34,240,421**	32,465,443
Dividends received	**(32,813,730)**	(16,880,000)
At December 31	**32,880,562**	31,453,871
Accumulated equity in other comprehensive income	**1,553,405**	1,553,405
	₱146,797,667	₱119,007,276

In 2011, the Association subscribed to 400,000 common shares at ₱100 par value representing 40.00% ownership in CMIT. In 2019, the Association subscribed additional 69,130 common shares at ₱100 par value amounting to ₱6.91 million. In 2020, additional 263,637 common shares at ₱100 par value was subscribed by the Association. Furthermore, CMIT issued new shares in 2020 to other investors, causing a decrease in the Association's percentage of ownership from 40.00% to 37.58%.

CARD MRI Property Management, Inc. (CMPMI)

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱115,495,000**	₱90,000,000
Placements	**15,000,000**	25,495,000
At December 31	**130,495,000**	115,495,000

(Forward)

	2020	2019
Accumulated equity in net earnings		
At January 1	**₱331,897**	₱443,165
Equity in net earnings	**89,970**	383,732
Dividends received	**–**	(495,000)
At December 31	**421,867**	331,897
Accumulated equity in other comprehensive loss		
At January 1	**(979,095)**	–
Equity in other comprehensive loss	–	(979,095)
At December 31	**(979,095)**	(979,095)
	₱129,937,772	₱114,847,802

In October and November 2016, the Association invested in 146,000 shares of CMPMI with par value of ₱100 representing 40.00% ownership. In 2017, additional placement was made amounting to ₱36.00 million. In 2020, additional 150,000 common shares at ₱100 par value amounting to ₱15.00 million was subscribed by the Association. However, despite the placements made in 2020, the Association's percentage of ownership decreased from 40.00% to 35.00% brought by the additional investments of new investors in CMPMI.

CARD MRI Holdings, Inc. (CMHI)

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱7,812,500**	₱7,812,500
Placements	**23,437,500**	–
At December 31	**31,250,000**	7,812,500
Accumulated equity in net earnings		
At January 1	**573,220**	(409,309)
Equity in net earnings (loss)	**(46,097)**	982,529
At December 31	**527,123**	573,220
Accumulated equity in other comprehensive income	**168,631**	168,631
	₱31,945,754	₱8,554,351

On February 5, 2016, the Association invested in 78,125 shares of CMHI with par value of ₱100 representing 25% ownership. In 2020, additional 234,375 shares with ₱100 par value amounting to ₱23.44 million was subscribed by the Association.

BotiCARD, Inc.

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱12,900,980**	₱11,697,000
Placements	**3,004,770**	1,203,980
At December 31	**15,905,750**	12,900,980

(Forward)

	2020	2019
Accumulated equity in net earnings		
At January 1	**₱5,244,358**	₱3,820,895
Equity in net earnings	**1,747,382**	2,627,443
Dividends received	**(3,004,770)**	(1,203,980)
At December 31	**3,986,970**	5,244,358
Accumulated equity in other comprehensive income	**1,322,889**	1,322,889
	₱21,215,609	₱19,468,227

In 2011, the Association purchased 780,000 common shares at ₱5.00 par value of BotiCARD amounting to ₱3.90 million.

In 2012, the Association deposited ₱3.00 million which will be used to subscribe to 600,000 additional common shares of BotiCARD initially recorded as advances for future stock subscription. On May 19, 2015, the SEC already approved BotiCARD's request for increase in authorized capital stock. The ₱3.00 million advances were reclassified from advances for future stock subscription as investment in BotiCARD as of December 31, 2015 together with the additional investment of ₱2.50 million. Additional investment amounting ₱1.95 million was made in 2017.

In 2020, BotiCARD declared 2,000,000 common shares at ₱5.00 per share amounting to ₱10.00 million as stock dividends based on July 2020 financial statements. The Association received a total of 600,954 shares as stock dividends.

CARD Astro Laboratories, Inc.

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱6,400,000**	₱–
Placements	**500,500**	6,400,000
At December 31	**6,900,500**	6,400,000
Accumulated equity in net earnings		
At January 1	**(384,905)**	–
Equity in net earnings	**2,569,629**	(384,905)
At December 31	**2,184,724**	–
	₱9,085,224	₱6,015,095

On August 6, 2019, the Association invested in 128,000 shares of CARD Astro with par value of ₱50.00 representing 28.00% ownership.

In 2020, additional 10,010 shares with ₱50 par value amounting to ₱0.50 million was subscribed by the Association. Also, a former stockholder of CARD Astro assigned 24,000 shares with ₱50 par value to the Association increasing its percentage of ownership to 32.00%.

CARD MRI Publishing House, Inc. (CMPuHI)

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱150,000**	₱150,000
Placements	**449,960**	–
At December 31	**599,960**	150,000
Accumulated equity in net income		
At January 1	**750,720**	389,310
Equity in net earnings	**229,655**	361,410
Dividend received	**(600,853)**	–
At December 31	**379,522**	750,720
Accumulated equity in other comprehensive income		
At January 1	**(121,347)**	–
Equity in other comprehensive income	**–**	(121,347)
At December 31	**(121,347)**	(121,347)
	₱858,135	₱779,373

On September 12, 2017, the Association invested in 30,000 shares of CMPuHI with par value of ₱5.00 representing 30.00% ownership.

In 2020, additional 89,992 shares with ₱5 par value amounting to ₱0.45 million was subscribed by the Association.

CARD MRI Hijos Tours, Inc. (CMHTI)

The details of the investment follow:

	2020	2019
Acquisition cost		
At January 1	**₱400,000**	₱100,000
Placements	–	300,000
At December 31	**400,000**	400,000
Accumulated equity in net earnings		
At January 1	**19,946**	20,643
Equity in net earnings	**(173,401)**	(697)
At December 31	**(153,455)**	19,946
Equity in other comprehensive income	**70**	–
	₱246,615	₱419,946

On September 12, 2017, the Association invested in 20,000 shares of CMHTI with par value of ₱5.00 representing 20.00% ownership.

Financial information of the Association's associates follows:

	2020	2019
CPMI		
Total assets	**₱2,593,855,839**	₱2,803,139,535
Total liabilities	**821,650,710**	1,478,771,022
Net income	**272,574,167**	260,876,051
Other comprehensive loss	**(1,454,986)**	–
CMIT		
Total assets	**479,653,836**	386,030,454
Total liabilities	**80,716,327**	87,984,766
Net income	**91,113,414**	81,163,608
CMPMI		
Total assets	**419,184,016**	396,675,887
Total liabilities	**72,614,764**	96,925,529
Net income	**257,056**	959,330
Other comprehensive loss	**–**	(2,447,737)
CMHI		
Total assets	**66,257,242**	41,673,176
Total liabilities	**228,753**	540,015
Net income (loss)	**(184,387)**	3,930,116
BotiCARD		
Total assets	**59,130,682**	60,847,669
Total liabilities	**3,126,509**	11,083,675
Net income	**5,824,605**	8,758,147
CARD Astro		
Total assets	**28,305,406**	15,291,482
Total liabilities	**5,688,977**	1,666,044
Net income (loss)	**8,030,091**	(1,374,662)
CMPuHI		
Total assets	**3,894,943**	3,313,030
Total liabilities	**1,004,577**	1,209,999
Net income	**765,516**	1,204,703
Other comprehensive loss	**–**	(404,491)
CMHTI		
Total assets	**2,114,140**	2,998,074
Total liabilities	**899,829**	891,881
Net loss	**(867,005)**	(3,487)
Other comprehensive income	**349**	–

14. Other Assets

This account consists of:

	2020	2019
Supplies inventory	**₱6,669,631**	₱5,077,904
Prepaid expenses	**3,496,365**	5,281,081
Other funds and deposits	**2,893,085**	2,235,200

(Forward)

	2020	2019
Prepaid rent	**₱2,814,468**	₱2,879,611
Prepaid taxes	**946,741**	1,096,022
Deferred reinsurance premiums (Note 18)	**600,500**	676,750
	₱17,420,790	₱17,246,568

Prepaid rent pertains to the payment made in advance and security deposits paid to the owners of the spaces being leased by the Association.

Deferred reinsurance premiums are advance payments made by the Association to National Reinsurance Corporation of the Philippines (NatRe) for the ceded insurance premiums.

Prepaid taxes of the Association pertain to the excess creditable withholding taxes over the income tax due from rental income and interest income from loans to related parties.
Supplies inventory includes office items that are being used in the operations of the Association.

Funds and deposits pertain to mutual guaranty fund paid to Microinsurance Association of the Philippines (MiMAP). This fund represents a claim reserve fund held and being managed by MiMAP that will be subsequently used to satisfy the claims of the Association's members that cannot be met by the net assets of the members in case of insolvency.

15. Accounts Payable and Accrued Expenses

This account consists of:

	2020	2019
Accrued expenses	**₱9,134,333**	₱14,495,819
Collection fee payable (Note 22)	**36,748,267**	10,527,250
Accounts payable		
Suppliers and contractors	**5,249,244**	7,606,373
Related parties (Note 22)	**3,396,403**	3,635,146
Staff, members and employees	**1,657,619**	2,404,679
Payable to PHINMA	**9,306,188**	–
Rent deposits	**2,814,663**	2,803,474
Due to government agencies	**1,848,745**	1,862,021
Others	**544,504**	89,255
	₱70,699,966	₱43,424,017

Accrued expenses pertain to accruals for employee benefits, professional fees, utilities and supplies. These are non-interest bearing and are generally settled upon receipt of actual billings.

Collection fee payable pertains to the Association's payable to its collecting institutions (see Note 22) regarding the amount of claims and expenses paid in excess of the premiums collected. These are non-interest-bearing and are generally on 1 to 30 day payment terms.

Accounts payable to suppliers and contractors consist mainly of unpaid purchases of supplies and outstanding obligations for ongoing building constructions. These are settled within one year after the reporting date.

Accounts payable to related parties pertains balances of unpaid claims, purchases of products, and expenses incurred for medicines as well as administration and training cost of staff and coordinators.

Accounts payable to staff, members and employees include amounts accrued for expenses related to other employee benefits and refund of resigned member or staff. These are settled within one year after reporting date.

Payable to PHINMA pertains to the payable to the said counterparty for the shares of Rizal College of Laguna classified as available-for-sale investments bought last December 2020 amounting to ₱18.61 million representing 0.04% ownership (see Note 9). As of December 31, 2020, the balance of the payable amounted to ₱9.31 million.

Rent deposits represent the amounts received from the Association's lessees as security deposit. These amounts are returnable to the lessees upon expiration of the lease agreement subject to the lessor's conditions.

Due to government agencies pertains to withholding taxes payable, SSS loan and contribution payable, PAG-IBIG loan and contribution payable and Medicare contribution payable which are subsequently remitted within one month after the reporting date based on the requirements of government agencies.

Other payables include unpaid balances for the services availed by the Association such as legal, actuarial valuation, driving services and lease liabilities. These are non-interest bearing and are generally settled within thirty (30) days.

16. Insurance Contract Liabilities

This account consists of:

	2020	2019
Life insurance contract liabilities	**₱10,486,084,129**	₱9,080,796,917
Loan redemption contract liabilities	**283,283,029**	225,638,796
	₱10,769,367,158	₱9,306,435,713

a) Life insurance contract liabilities

Details of the life insurance contract liabilities follow:

	2020	2019
Provision for unearned premiums	**₱10,355,809,299**	₱8,990,033,345
Outstanding claims provision	**130,274,830**	90,763,572
Total life insurance contract liabilities	**₱10,486,084,129**	₱9,080,796,917

This account represents reserves for life insurance which is computed in compliance with the statutory requirements as set by the IC which is equal to 50% of gross contributions to Basic Life Insurance for the year.

The rollforward analysis of provision for unearned premiums follows:

	2020	2019
At January 1	**₱8,990,033,345**	₱7,507,432,541
Premiums received	**3,242,664,517**	1,859,987,552
Liability released for payments of death, maturity and surrender benefits and claims	**(1,876,888,563)**	(377,386,748)
At December 31	**₱10,355,809,299**	₱8,990,033,345

The rollforward analysis of outstanding claims provision follows:

	2020	2019
At January 1	**₱90,763,572**	₱88,490,901
Claims incurred in the current year	**1,738,922,297**	1,550,657,986
Claims paid during the year	**(1,699,411,039)**	(1,548,385,315)
At December 31	**₱130,274,830**	₱90,763,572

b) Loan redemption contract liabilities

Details of the loan redemption contract liabilities follow:

	2020	2019
Provision for unearned premiums	**₱269,107,244**	₱218,350,082
Provision for claims incurred but not reported (IBNR)	**14,175,785**	7,288,714
Total loan redemption contract liabilities	**₱283,283,029**	₱225,638,796

The rollforward analysis of provision for unearned premiums follows:

	2020	2019
At January 1	**₱218,350,082**	₱180,568,421
Premiums received	**517,302,788**	740,819,961
Earned premiums	**(466,545,626)**	(703,038,300)
At December 31	**₱269,107,244**	₱218,350,082

This account represents reserves for loan redemption insurance computed using the unearned net premium reserves method.

The rollforward analysis of provision for claims IBNR follows:

	2020	2019
At January 1	**₱7,288,714**	₱6,906,214
Increase in IBNR	**6,887,071**	382,500
At December 31	**₱14,175,785**	₱7,288,714

The rollforward analysis of outstanding claims provision follows:

	2020	2019
At January 1	**₱–**	₱–
Claims incurred in the current year	**186,572,190**	171,070,655
Claims paid during the year	**(186,572,190)**	(171,070,655)
At December 31	**₱–**	₱–

The loan redemption insurance covers the outstanding loan balance of members from CARD, Inc., CARD SME Bank, Inc., CARD Bank, Inc., CARD MRI Rizal Rural Bank, Inc., CARD Leasing and Finance Corporation, CARD Employees' Multi-purpose Cooperative and all BOAT partners in case of death of a member-borrower.

17. **Retirement Fund**

The retirement fund or provident fund represents contributions of members of the Association to the Retirement fund, net of administrative expenses. The retirement fund is being administered by the Association and is intended for the retirement of its members. The contributions are invested and the interests thereon are credited to the retirement fund. It can be availed of at the age of 65 if the member has completed a minimum of five (5) consecutive years of membership in the Association. The benefit shall be equal to all the contributions made by the member to the retirement fund plus interest earned. If a member decides to resign prior to age of 65, the member shall be entitled to refund of 100.00% of the member's total contributions plus interest based on prevailing interest rates for regular savings of commercial banks.

The rollforward analysis of retirement fund follows:

	2020	2019
At January 1	**₱5,990,697,711**	₱4,839,250,994
Contribution	**1,012,144,898**	1,169,890,840
Interest income	**336,997,815**	266,369,240
Claims and expenses	**(231,056,423)**	(284,813,363)
At December 31	**₱7,108,784,001**	₱5,990,697,711

The allocation of interest for retirement fund is equivalent to 2.95% in 2020 and 3.87% in 2019, of the beginning balance of the account plus contribution from members during the year.

As of December 31, 2020 and 2019, included in 'Other income' are adjustments on interest income previously allocated to retirement fund amounting to ₱3.18 million and ₱22.13 million, respectively.

18. **Net Earned Premiums**

The net earned premiums consist of the following:

	2020	2019
Members' contribution and premiums – micro		
Life insurance premiums	**₱3,051,163,884**	₱3,614,297,925
Loan insurance premiums	**708,803,420**	740,819,961
Total members' contribution and premiums – micro	**3,759,967,304**	4,355,117,886
Less: Reinsurer's share on gross earned premium on insurance contracts -		
Life insurance	**2,478,250**	3,031,225
Members' contribution and premiums – micro – net	**₱3,757,489,054**	₱4,352,086,661

Under the Association's basic life insurance program, members and its qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. The member's contribution is ₱15.00 every week.

Under the basic life insurance program is the golden life insurance program wherein members aging 70 years old are entitled to enroll in the program and have continued coverage up to 100 years old. The member has the option to choose between ₱50.00 or ₱100.00 premium every week with death benefit of ₱25,000 or ₱50,000, respectively. Premiums are payable for ten (10) years.

Under the basic life insurance program extension program, members retiring from the Basic Life Insurance Program shall pay a single premium amounting to ₱1,000.00 per year, 50% of which is Member's Equity Value refundable to the member upon termination of the policy.

Katuparan program provides protection ensuring that the member's target savings will be met after a loss. Under this plan, the member may choose between five (5) options with varying Target Savings Amount and term to meet the said target. The face amount ranges from ₱10,000.00 up to ₱100,000.00 with term of at least two (2) years up to a maximum of five (5) years.

Remitter Protek Plan is a group personal accident insurance cover that provides benefits for death, dismemberment/disablement and daily hospitalization caused by an accident. This insured member elected in a Center meeting who is tasked to remit the collection of the Center to the Unit Offices, Bank Lite Unit (BLU) or Branches of CARD MRI Microfinancing Institutions and other organizations recognized by and affiliated with CARD MBA. The corresponding premium for this plan is ₱200 per center per year.

Family Security Plan is a Group Yearly Renewable Term Plan which may be availed voluntarily by eligible member to supplement the coverage he/she and his/her dependent/s currently enjoy under the mandatory Basic Life Insurance Plan (BLIP). In case of death or total and permanent disability of the insured/s (i.e. member and/or the member's qualified dependent/s), the designated beneficiaries shall be indemnified in accordance with the following table of benefits of Family Security Plan. The member may avail the plan thru loan or cash payment. The corresponding premium for this plan is ₱1,000 per year.

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

In April 2014, the Association entered into a reinsurance agreement with National Reinsurance Corporation of the Philippines (PHILNARE) in response to the increased risk brought by severe calamities hitting the country.

Reinsurance will limit the possible loss that the Association would experience in case of disaster.

The rollforward of the deferred reinsurance premiums follows:

	2020	2019
At January 1	**₱676,750**	₱869,583
Premiums ceded to reinsurer	**2,402,000**	2,838,392
Reinsurer's share of gross earned premiums on insurance contracts	**(2,478,250)**	(3,031,225)
At December 31	**₱600,500**	₱676,750

Deferred reinsurance premiums pertain to the unamortized portion of the premiums ceded to PHILNARE (see Note 14).

19. Investment Income

This account consists of

	2020	2019
Interest income on:		
Cash and cash equivalents (Note 6)	**₱9,807,037**	₱9,947,332
HTM investments (Note 7)	**403,523,931**	356,072,560
Loans and receivable (Note 8)	**868,292**	813,772
Short-term investments (Note 8)	**7,066,145**	4,301,188
Long-term investments (Note 8)	**24,585,199**	18,353,848
Dividend income (Note 9)	**120,662,256**	169,885,744
	₱566,512,860	₱559,374,444

20. General and Administrative Expenses

This account consists of:

	2020	2019
Transportation and travel	**₱167,999,785**	₱217,049,900
Salaries and allowances	**110,384,455**	124,970,973
Professional fees	**42,592,109**	42,418,370
Depreciation (Notes 11, 12 and 21)	**34,376,218**	32,744,305
Supplies	**32,434,810**	23,990,520

(Forward)

	2020	2019
Other members' benefit	**₱28,259,476**	₱19,923,144
Training and development	**27,836,640**	12,582,991
Program, monitoring and evaluation	**24,541,859**	27,678,433
Rental (Note 21)	**23,231,034**	23,041,101
Communication	**10,880,988**	7,233,686
Security and janitorial	**8,905,989**	16,694,566
Repairs and maintenance	**7,591,889**	7,142,978
Interest expense	**6,134,894**	5,391,811
Insurance	**5,027,822**	5,529,295
Provision (reversal of provision) for probable losses (Note 8)	**(4,876,603)**	3,596,596
Light and water	**4,538,767**	5,392,774
Taxes and licenses	**4,268,247**	5,589,490
Meetings and seminars	**3,158,894**	11,618,985
Bank charges	**2,991,186**	1,246,271
Pension expense – net (Note 25)	**1,455,074**	(29,439)
Membership dues	**1,027,467**	1,065,723
Impairment loss (Note 12)	**971,496**	–
Entertainment, amusement and recreation	**537,237**	1,210,395
Research and documentation	**109,691**	167,396
Reversal of impairment loss (Notes 11 and 12)	**–**	(1,098,426)
Miscellaneous	**9,558,428**	1,708,000
	₱553,937,852	₱596,859,838

21. Leases

<u>The Association as a Lessee</u>

Short-term and low-value leases

The Association leases vehicles, IT equipment and office spaces. The lease contracts are for the periods ranging from six (6) months to two (2) years and are renewable upon mutual agreement between the Association and the lessors such as CARD Leasing and Finance Corporation and other third-party lessors.

Rent expense amounted to ₱23.23 million and ₱23.04 million in 2020 and 2019, respectively. Rent expense in 2020 and 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2020, and 2019, the Company has no contingent rent payable.

Long-term leases

The Association leases vehicles, IT equipment and office spaces. The lease contracts are for the periods ranging from one (1) year and five (5) months to two (2) years and are renewable upon mutual agreement between the Company and the lessors such as CARD Bank, Inc., CARD Inc., CARD Leasing and Finance Corporation, CARD MRI Development Institute, CARD MRI Property Holdings, CARD SME Bank and third-party lessors.

The movements in the right-of-use asset follows:

	2020	2019
Cost		
At January 1	**₱10,434,011**	₱1,995,105
Additions	**9,582,357**	8,438,906
Terminated lease	**(5,460,011)**	–
At December 31	**14,556,357**	10,434,011
Accumulated Depreciation		
At January 1	**5,705,313**	–
Depreciation	**7,518,713**	5,705,313
Terminated lease	**(5,460,011)**	–
At December 31	**7,764,015**	5,705,313
Net Book Value	**₱6,792,342**	₱4,728,698

The movements in lease liabilities follows:

	2020	2019
Balance at beginning of year	**₱4,801,734**	₱1,916,179
Additions	**9,404,555**	8,252,898
Interest expense	**397,183**	422,093
Payments	**(8,247,895)**	(5,789,436)
Balance at end of year	**₱6,355,577**	₱4,801,734

In 2019, the Association entered into new lease contracts with CLFC and other third-party lessor for the lease of office space and vehicles. These contracts have terms ranging from one (1) year and five (5) months to two (2) years.

The following are the amounts recognized in statement of income:

	2020	2019
Lease payments relating to short-term leases and leases with low value assets	**₱23,231,034**	₱23,041,101
Depreciation expense of ROU assets included in property and equipment	**7,518,713**	5,705,313
Interest expense on lease liabilities	**397,182**	422,093
Total amount recognized in statement of income	**₱31,146,929**	₱29,168,507

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

	2020	2019
Within one year	**₱5,535,184**	₱9,700,422
Beyond one to two years	**1,063,084**	851,976
	₱6,598,268	₱10,552,398

The Association as a Lessor

The Association entered into operating lease agreements with its related parties with terms ranging from three (3) to five (5) years. Rent income included in the statements of comprehensive income under "rental income" account in 2020 and 2019 amounted to ₱17.02 million and ₱16.24 million, respectively.

As of December 31, the amount of future minimum rentals receivable based on the remaining term of the existing lease contracts are as follow:

	2020	2019
Within 1 year	**₱18,094,550**	₱13,015,653
More than 1 year but not more than 5 years	**27,873,241**	13,858,768
	₱45,967,791	₱26,874,421

22. **Related Party Transactions**

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The significant transactions of the Association with related parties in the normal course of business are as follow:

		2020			
Category	**Amount**	**Outstanding**	**Nature**	**Terms**	**Conditions**
Associates					
CMIT					
Account receivable	**P,=3,313,314**	P,=–	Unremitted Collection of members (staff contribution), share on electricity and other expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**248**	–	Unpaid expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**50,670**	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
BoTICARD					
Account receivable	**1,255,308**	**701,219**	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**454,349**	**451,450**	Unpaid medicines and other expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income (Note 21)	**420,687**	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CPMI					
Account receivable	**5,350,604**	**445,198**	Advance payment for claims to members who avail CPMI products and other related expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**15,624,707**	**360,716**	Unpaid Premiums uncollected from CPMI products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**175,184**	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

		2020			
Category	**Amount**	**Outstanding**	**Nature**	**Terms**	**Conditions**
Affiliates					
MNLI					
Accounts receivable	**P,=18,000**	**P,=–**	Uncollected insurance premiums of employees	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**1,800**	**1,800**	Unpaid expenses incurred in MNLI Product	On-demand; noninterest-bearing	Unsecured; no impairment
CaMIA					
Account receivable	**5,010,522**	**81,941**	Advance payment of claims to members who avail CaMIA products and other related expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**1,428,134**	**4,150**	Unpaid Premiums uncollected from CaMIA products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**471,717**	**–**	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CMDI					
Account receivable	**399,806**	**–**	Unremitted Collection of Staff contribution & others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**163,580**	**5,400**	Unpaid expenses for administration and training cost of staff & coordinators	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Inc.					
Account receivable	**313,347,502**	**666,818**	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	**212,423,939**	**20,135,274**	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**379,460**	**–**	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CARD SME Bank, Inc.					
Cash and cash equivalents	**–**	**23,330,860**	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	**62,904,744**	**70,935**	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	**48,079,068**	**8,546,904**	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**5,071,424**	**–**	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
BDSFI					
Account receivable	**17,360**	**–**	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CARD EMPC					
Account receivable	**1,546,488**	**1,392,114**	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**2,022,426**	**1,964,583**	Unpaid claims & expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

2020

Category	Amount	Outstanding	Nature	Terms	Conditions
Rizal Bank Inc.					
Cash and cash equivalents	**P,=–**	**P,= 23,813,052**	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	**47,448,345**	**232,071**	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	**27,375,615**	**2,929,351**	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**2,014,112**	**–**	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CLFC					
Account receivable	**280,871**	**188,549**	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	**794,845**	**574,553**	Unpaid expenses incurred in leasing	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**57,600**	**–**	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Bank Inc.					
Cash and cash equivalents	**–**	**69,591,282**	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	**72,038,814**	**891,776**	Unremitted Collection of staff contributions, rental for year end and other expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	**99,681,565**	**5,136,738**	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	**8,363,563**	**–**	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CMPHI					
Loans receivable	**10,500,000**	**10,500,000**	Loan granted to CMPH on May 16, 2019	3-year term; interest at 5.11%	Unsecured; no impairment
CARD Hijos Tours					
Accounts payable	**33,751**	**33,751**	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment

2019

Category	Amount	Outstanding	Nature	Terms	Conditions
Associates					
CMIT					
Account receivable	P,=3,781,863	P,=–	Unremitted Collection of members (staff contribution), share on electricity and other expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	699	–	Unpaid expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	250,596	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

			2019		
Category	Amount	Outstanding	Nature	Terms	Conditions
BoTICARD					
Account receivable	P,=601,752	P,=18,346	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	230,822	95,312	Unpaid medicines and other expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	420,687	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CPMI					
Account receivable	50,031,520	2,825,892	Advance payment for claims to members who avail CPMI products and other related expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	586,244,351	429,049	Unpaid Premiums uncollected from CPMI products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	133,368	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
Affiliates					
MNLI					
Accounts receivable	6,000	–	Uncollected insurance premiums of employees	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	394,355	386,197	Unpaid expenses incurred in MNLI Product	On-demand; noninterest-bearing	Unsecured; no impairment
CaMIA					
Account receivable	7,547,061	565,119	Advance payment of claims to members who avail CaMIA products and other related expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	12,616,709	1,338,860	Unpaid Premiums uncollected from CaMIA products	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	389,053	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CMDI					
Account receivable	364,017	5,480	Unremitted Collection of Staff contribution & others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	110,557	38,202	Unpaid expenses for administration and training cost of staff & coordinators	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Inc.					
Account receivable	236,123,800	1,756,075	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	264,041,912	2,668,792	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	365,364	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment

(Forward)

2019					
Category	Amount	Outstanding	Nature	Terms	Conditions
CARD SME Bank Inc.					
Account receivable	P,= 65,857,689	P,=5,511,075	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	46,289,928	1,750,313	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	4,841,300	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
BDSFI					
Account receivable	13,520	300	Unremitted Collection of Staff contribution	On-demand; noninterest-bearing	Unsecured; no impairment
CARD EMPC					
Account receivable	–	901,428	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	43,320	–	Unpaid Claims & expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rizal Bank Inc.					
Cash and cash equivalents	–	24,742,984	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	22,652,693	5,439,389	Unremitted Collection of members (Staff contribution) and others expense incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	18,717,278	(330,594)	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental income (Note 21)	1,987,727	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CLFC					
Account receivable	114,532	5,136	Unremitted Collection of members (Staff contribution) and others expenses	On-demand; noninterest-bearing	Unsecured; no impairment
Accounts payable	1,501,585	1,347,445	Unpaid expenses incurred in leasing	On-demand; noninterest-bearing	Unsecured; no impairment
CARD Bank Inc.					
Cash and cash equivalents	–	73,174,694	On-demand; interest at 1.50% for regular savings deposit		Unsecured; no impairment
Account receivable	185,749,445	6,826,641	Unremitted Collection of staff contributions, rental for year end and other expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Collection fee payable	63,474,165	3,303,018	Unpaid claims and expenses incurred	On-demand; noninterest-bearing	Unsecured; no impairment
Rental Income	7,801,758	–	Income received from office space rentals	On-demand; noninterest-bearing	Unsecured; no impairment
CMPHI					
Loans receivable	15,000,000	15,000,000	Loan granted to CMPH on May 16, 2019	3-year term; interest at 5.11%	Unsecured; no impairment

In 2020 and 2019, short-term employee benefit compensation to the Association's key management personnel amounted to ₱1.41 million and ₱1.60 million, respectively. Post-employment benefits compensation to key management personnel amounted to ₱1.81 million and ₱1.70 million in 2020 and 2019, respectively.

23. Income Tax

Income taxes include income tax on its income not incidental to its operations (e.g., rent income) and final withholding tax on interest income on cash in banks, short-term and long-term investments and held-to-maturity investments.

Current tax regulations provide that RCIT rate shall be 30.0%. It further states that nondeductible interest expense shall likewise be reduced to 33.0% of interest income subjected to final tax.

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2020 and 2019 RCIT computation, the Bank elected to claim itemized expense deductions instead of the OSD.

<u>Relevant Tax Updates</u>
RA No. 10963, *The Tax Reform for Acceleration and Inclusion (TRAIN)*, is the first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2017 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.50%, tax on interest income of foreign currency deposit was increased to 15.00% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

<u>Revenue Regulations No. 4-2011</u>

<u>TRAIN Law</u>
RA No. 10963, the Tax Reform for Acceleration and Inclusion (TRAIN), is the first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2018 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.5%, tax on interest income of foreign currency deposit was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

<u>CREATE Bill</u>
The Corporate Recovery and Tax Incentives for Enterprise (CREATE) bill aims to reduce the corporate income tax rate from 30% to 25% starting July 2020 and to rationalize the current fiscal incentives.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Association's net revenue.

The provision for income tax consists of:

	2020	2019
Current tax	**₱1,000,044**	₱720,767
Final tax	**87,281,262**	75,049,635
	₱88,281,306	₱75,770,402

The reconciliation of the income tax expense computed based on the excess of revenue over expenses before tax at the statutory income tax rate to the provision for income tax in the statements of comprehensive income follows:

	2020	2019
Statutory income tax	**₱195,819,100**	₱381,633,349
Add (deduct) the tax effect of:		
Gross premiums on insurance contracts	**(1,127,246,716)**	(1,305,625,998)
Gross change in insurance contract liabilities	**424,959,935**	456,114,993
Gross insurance contract benefits and claims Paid	**565,794,969**	515,836,791
General and administrative expenses	**166,181,356**	176,812,407
Equity in net earnings of associates	**(49,276,285)**	(47,153,296)
Dividend income	**(36,198,677)**	(50,965,723)
Interest income subjected to final tax	**(42,039,711)**	(37,032,108)
Interest income not subjected to final tax	**(7,375,560)**	(5,506,154)
Rental income	**(5,104,576)**	(4,870,553)
Other expense (income)	**2,767,471**	(3,473,053)
Surrender charge	**–**	(253)
Provision for income tax	**₱88,281,306**	₱75,770,402

24. **Notes to Statement of Cash Flows**

The Association's principal noncash investing activity in 2020 and 2019 pertains to additions to ROU assets amounting to ₱9.58 million and ₱8.44 million, respectively.

The table below summarizes the changes in lease liabilities, including both changes arising from cash flows and non-cash changes.

	At January 1	Additions	Settlements	Other Adjustments	At December 31
2020	**₱4,801,734**	**₱9,404,555**	**(₱8,247,895)**	**₱397,183**	**₱6,355,577**
2019	1,916,179	8,252,898	(5,789,436)	422,093	4,801,734

25. **Employee Benefits**

The Association, CARD Bank, CARD Inc., CARD SME Bank, CAMIA, CARD BDSFI, CMIT, BotiCARD, CMDI, MLNI, RBI, CLFC, RISE and EMPC maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Parent Company and its related parties.

MERP and the Hybrid Plan are compliant with the requirements of RA No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

The Hybrid Plan provides a retirement benefit equal to 100% of the member's employer accumulated value (the Parent Company's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100% of the employer accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

The latest actuarial valuation report covers reporting period as of December 31, 2020.

Changes in funded retirement plan are as follow:

	2020													
	Net benefit cost in statement of comprehensive income							**Remeasurements in other comprehensive income**						
	At January 1	**Current service cost (Note 20)**	**Net interest (Note 19)**	**Subtotal**	**Benefits paid**	**Transfer to plan**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from changes in experience**	**Effect of changes in asset ceiling**	**Subtotal**	**Contribution by employer**	**At December 31**
Present value of defined benefit obligation	**₱38,195,349**	**₱3,948,590**	**₱2,116,022**	**₱ 6,064,612**	**(₱24,523)**	**₱1,523,943**	**₱–**	**(₱287,839)**	**(₱2,433,450)**	**(₱852,793)**	**₱–**	**(₱3,574,082)**	**₱–**	**₱42,185,299**
Fair value of plan assets	**(100,296,971)**	–	**(5,653,265)**	**(5,653,265)**	**24,523**	**(1,523,943)**	**1,630,411**	–	–	–	–	**1,630,411**	**(1,995,631)**	**(107,814,876)**
Effect of changes in asset ceiling	**18,839,840**	–	**1,043,727**	**1,043,727**	**–**	**–**	–	–	–	–	**(3,373,896)**	**(3,373,896)**	**–**	**16,509,671**
Retirement liability (asset)	**(₱43,261,782)**	**₱3,948,590**	**(₱2,493,516)**	**₱1,455,074**	**₱–**	**₱–**	**₱1,630,411**	**(₱287,839)**	**(₱2,433,450)**	**(₱852,793)**	**(₱3,373,896)**	**(₱5,317,567)**	**(₱1,995,631)**	**(₱49,119,906)**

	2019													
	Net benefit cost in statement of comprehensive income							Remeasurements in other comprehensive income						
	At January 1	Current service cost (Note 20)	Net interest (Note 19)	Subtotal	Benefits paid	Transfer to plan	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in experience	Effect of changes in asset ceiling	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱25,263,141	₱2,748,654	₱1,945,262	₱4,693,916	₱–	₱–	₱–	₱374,715	₱8,993,127	(₱1,129,550)	₱–	₱ 8,238,292	₱–	₱38,195,349
Fair value of plan assets	(94,556,008)	–	(7,348,913)	(7,348,913)	–	–	3,376,797	–	–	–	–	3,376,797	(1,768,847)	(100,296,971)
Effect of changes in asset ceiling	34,098,157	–	2,625,558	2,625,558	–	–	–	–	–	–	(17,883,875)	(17,883,875)	–	18,839,840
Retirement liability (asset)	(₱35,194,710)	₱2,748,654	(₱2,778,093)	(₱29,439)	₱–	₱–	₱3,376,797	₱ 374,715	₱ 8,993,127	(₱1,129,550)	(₱17,883,875)	(₱6,268,786)	(₱1,768,847)	(₱43,261,782)

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

	2020	2019
Discount rate	**3.96%**	5.54%
Salary increase rate	**3.00%**	5.00%
Average remaining working lives	**30.9 years**	31.8 years

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

	2020	2019
Investment in bonds	**₱45,907,574**	₱45,854,646
Cash and cash equivalents	**49,896,725**	43,913,402
Loans receivable	**–**	8,262,907
Investment in mutual funds	**528,293**	501,902
Real estate	**9,013,324**	–
Others	**2,468,961**	1,764,114
	₱107,814,877	₱100,296,971

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020, assuming if all other assumptions were held constant:

		Effect on defined pension plan	
	Increase (decrease)	2020	2019
Discount rate	+100 basis points	**(₱4,942,317)**	(₱4,612,127)
	-100 basis points	**5,986,729**	5,595,562
Future salary increase	+100 basis points	**5,984,186**	5,568,815
	-100 basis points	**(5,028,544)**	(4,674,112)

The Association expects to contribute ₱21.92 million to the defined pension plan in 2021.

As of December 31, 2020, the maturity profiles of undiscounted benefit payments of the Association follow:

Less than one year	₱2,327,719
More than one year to five years	11,204,022
More than five years	19,781,044
	₱33,312,785

The average duration of the defined benefit obligation at the end of the reporting period is 13.0 years.

26. Management of Insurance and Financial Risks

Governance Framework

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

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

Regulatory Framework

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

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

Guaranty fund

As a mutual benefit association, IC requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5.00% of the Association's gross premium collections until the guaranty fund reaches 12.50% of the minimum paid up capital for domestic life insurance companies or ₱125.00 million. As of December 31, 2020 and 2019, the Association has a total of ₱225.59 million and ₱225.06 million, respectively, representing guaranty fund which is deposited with the IC.

Risk-based capital requirements (RBC)

On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

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

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

	2020	2019
Member's equity	**₱5,193,787,557**	₱4,576,314,812
RBC requirement	**1,254,937,910**	1,107,625,917
RBC ratio	**413.87%**	413.16%

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

Standard chart of accounts
IC has released Circular No. 2014-41 containing the standard chart of accounts for all new and existing mutual benefit associations doing business in the Philippines. This circular is in line with the requirements of SRC Rule 68, Section 189 of the Amended Insurance Code, and the current accounting standards in the Philippines. This circular is effective immediately and should be used in the annual statement filed with IC starting calendar year 2014. In 2019, the Association changed the account title for the collected contributions from the members under the basic and optional funds, respectively, from 'Gross premiums on insurance contracts' to 'Members' Contributions" and "Premiums – Micro". Said accounts still conform with this circular.

Valuation of reserves
IC has released Circular No. 2016-66 on the Valuation Standards for Life Insurance Policy Reserves which provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). Whereas, the methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation. This valuation method is applicable to the Association's golden life insurance product which takes effect beginning January 1, 2017. However, in 2018 per advisory no. 6-2018 as released by IC, the Association shift back to NPV as the implementation of GPV for mutual benefit associations (MBAs) is meantime deferred as there appears a pressing need to issue a new Financial Reporting Framework for MBAs which shall be implemented simultaneously to avoid asset-liability mismatch. As a result of Advisory No. 6-2018, the Association retrospectively changed its insurance remeasurement policy from GPV to NPV.

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

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements for the loan redemption fund. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Although the Association has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Association's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Association substantially dependent upon any single reinsurance contract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2020

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	**Increase of 1.00% on discount rate and increase of 25.00% on mortality rate**
Increase (decrease) on liabilities	**(₱11,868,119)**	**₱8,274,480**
Increase (decrease) on revenue	**11,868,119**	**(8,274,480)**

2019

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Increase of 1.00% on discount rate and increase of 25.00% on mortality rate
Increase (decrease) on liabilities	₱7,688,000,118	(₱399,369,648)
Increase (decrease) on revenue	(7,688,000,118)	399,369,648

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

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

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments
The Association's principal financial instruments are cash and cash equivalents, loans and receivables, AFS financial assets, HTM investments, accounts payable and accrued expenses. The main purpose of these financial instruments is to finance their operations.

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2020 and 2019:

	2020		2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	**₱591,126,625**	**₱591,126,625**	₱547,505,284	₱547,505,284
HTM investments	**16,573,941,641**	**17,668,464,756**	15,558,075,386	15,849,025,083
Loans and Receivables				
Short-term investments	**257,315,208**	**257,315,208**	276,551,385	276,551,385
Long-term investments	**2,668,696,325**	**3,009,108,401**	854,375,594	854,375,594
Receivables				
Accounts receivables	**6,676,988**	**8,584,779**	29,119,251	25,961,427
Loans receivable	**14,610,909**	**15,098,644**	19,960,000	19,960,000
Other receivables	**18,691,098**	**16,785,308**	142,071,067	141,773,004
AFS financial assets				
Quoted	**550,041,174**	**550,041,174**	537,128,813	537,128,813
Unquoted	**1,084,243,217**	**1,084,243,217**	1,108,241,463	1,108,241,463
Accrued interest receivable	**283,510,335**	**283,510,335**	220,407,218	220,407,218
	₱22,048,853,520	**₱23,484,278,447**	₱19,293,435,461	₱19,580,929,271
Financial Liabilities				
Accounts payable and accrued expenses	**₱74,240,881**	**₱74,240,881**	₱45,422,277	₱45,422,277

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash and cash equivalents, short-term investments, receivables except loan receivable, quoted equity securities classified as AFS financial assets, accounts payable and accrued expenses approximate their fair values.

For unquoted equity investments classified as AFS, these investments are carried at a reliable fair value under Level 3 of fair value hierarchy. This is determined using capital asset pricing model (CAPM). This is a model that describes the relationship between risks and expected return. Similar companies to the investee companies are identified and used as basis to identify the risks involved.

For loans receivable and long-term investments classified under loans and receivable, fair values are based on discounted value of future cash flows using applicable rates for similar types of instruments. The discount rate used ranged from 4.00% to 6.00% of December 31, 2020 and 2019.

For investments in mutual fund companies under AFS investments, fair values are established by reference to the published net asset value.

As of December 31, 2020 and 2019, the fair value of the investments in mutual funds designated as AFS financial assets of the Association amounted to ₱473.61 million and ₱464.07 million, respectively.

As of December 31, 2020 and 2019, the investment in Unit Investment Trust Fund (UITF) with BPI Bayanihan Balanced Fund amounted to ₱76.43 million and ₱73.06 million, respectively.

The Association classifies AFS financial assets under Level 1 of the fair value hierarchy, except for the unquoted equity securities that do not have quoted market prices in an active market which are measured using dividend yield model. During the reporting period ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

Starting in 2018, the Association determined the fair value of its unquoted equity securities classified as AFS financial assets using the dividend yield model. This method is based on inputs other than quoted prices that are observable for the asset such as weighted cost of capital.

The assumptions above were used in the "Base Case" projections. These assumptions were individually changed (while holding other assumptions steady as in the Base Case) and the resulting valuations derived, to show sensitivity of the valuation to various changes in assumptions.

		Increase (decrease) in fair value	
Significant Unobservable Input	Movement in basis points	**2020**	2019
Weighted cost of capital	+500	**(₱26,313,582)**	(₱83,494,663)
	-500	**24,542,800**	98,051,182

Financial Risks

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

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

Credit risk

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

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

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

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

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

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

	2020	2019
Financial Assets		
Cash and cash equivalents (excluding cash on hand amounting ₱0.12 million and ₱0.22 million in 2020 and 2019, respectively)	**₱591,006,625**	₱547,288,384
HTM investments	**16,573,941,641**	15,558,075,386
Loans and Receivables		
Short-term investments	**257,315,208**	276,551,385
Long-term investment	**2,668,696,325**	854,375,594
Receivables		
Accounts receivable	**6,676,988**	29,119,251
Loans receivable	**14,610,909**	19,960,000
Advances for future stocks subscriptions	**–**	121,273,000
Other receivables	**18,691,098**	20,798,067
AFS financial assets		
Unquoted	**1,084,243,217**	1,108,241,463
Quoted	**550,041,174**	537,128,813
Accrued interest receivable	**283,510,335**	220,407,218
	₱22,048,733,520	₱19,293,218,561

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2020 and 2019.

2020

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
HTM investments	**P,=16,573,941,641**	**P,=–**	**P,=–**	**P,=16,573,941,641**
Cash and cash equivalents	**591,126,625**	**–**	–	**591,126,625**

(Forward)

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	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**Total**
Loans and Receivables				
Long-term investments	**P,=2,668,696,325**	**P,=–**	**P,=–**	**P,=2,668,696,325**
Short-term investments	**257,315,208**	**–**	**–**	**257,315,208**
Accrued interest receivable	**283,510,335**	**–**	**–**	**283,510,335**
Loans receivable	**14,610,909**	**–**	**–**	**14,610,909**
Accounts receivables	**6,676,988**	**–**	**1,151,704**	**7,828,692**
Other receivables	**18,691,098**	**–**	**534,305**	**19,225,403**
AFS financial assets				
Quoted	**550,041,174**	**–**	**–**	**550,041,174**
Unquoted	**1,084,243,217**	**–**	**–**	**1,084,243,217**
	P,=22,048,853,520	**P,=–**	**P,=1,686,009**	**P,=22,050,539,529**

2019

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
HTM investments	P,=15,558,075,386	P,=–	P,=–	P,=15,558,075,386
Cash and cash equivalents	547,505,284	–	–	547,505,284
Loans and Receivables				
Long-term investments	854,375,594	–	–	854,375,594
Short-term investments	276,551,385	–	–	276,551,385
Accrued interest receivable	220,407,218	–	–	220,407,218
Loans receivable	19,960,000	–	–	19,960,000
Accounts receivables	27,364,402	–	1,754,849	29,119,251
Other receivables	137,261,317	–	4,809,750	142,071,067
AFS financial assets				
Quoted	537,128,813	–	–	537,128,813
Unquoted	1,108,241,463	–	–	1,108,241,463
	P,=19,286,870,862	P,=–	P,=6,564,599	P,=19,293,435,461

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

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

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

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

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

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

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

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

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

2020

	Up to 1 year	**1-3 years**	**over 5 years**	**No term**	**Total**
Financial assets					
Cash and cash equivalents	**P,= 592,559,350**	**P,=–**	**P,=–**	**P,=–**	**P,=592,559,350**
HTM investments	**2,710,010,216**	**13,521,398,186**	**6,243,882,572**	**–**	**22,475,290,974**
Loans and receivables					
Accounts receivable	**6,676,988**	**–**	**–**	**–**	**6,676,988**
Accrued interest receivable	**140,635,658**	**–**	**–**	**–**	**140,635,658**
Loans receivable	**–**	**16,055,503**	**–**	**–**	**16,055,503**
Other receivables	**18,691,098**	**–**	**–**	**–**	**18,691,098**
Short-term investments	**257,721,284**	**–**	**–**	**–**	**257,721,284**
Long-term investments	**–**	**–**	**3,279,496,567**	**–**	**3,279,496,567**
AFS financial assets	**–**	**–**	**–**	**1,634,284,391**	**1,634,284,391**
	P,=3,726,294,594	**P,= 13,537,453,689**	**P,=9,523,379,139**	**P,=1,634,284,391**	**P,=28,421,411,813**
Financial liabilities					
Other financial liabilities					
Accounts payable -CaMIA	**P,=4,150**	**P,=–**	**P,=–**	**P,=–**	**P,=4,150**
Claims payable	**144,450,616**	**–**	**–**	**–**	**144,450,616**
Collection fee payable	**47,578,348**	**–**	**–**	**–**	**47,578,348**
Accrued expenses	**26,658,383**	**–**	**–**	**–**	**26,658,383**
Lease liabilities	**5,307,875**	**1,047,702**	**–**	**–**	**6,355,577**
	P,=223,999,372	**P,=1,047,702**	**P,=–**	**P,=–**	**P,=225,047,074**

2019

	Up to 1 year	1-3 years	over 5 years	No term	Total
Financial assets					
Cash and cash equivalents	P,=547,505,284	P,=–	P,=–	P,=–	P,=547,505,284
HTM investments	220,640,616	4,816,249,964	10,521,184,806	–	15,558,075,386
Loans and receivables					
Accounts receivable	24,845,505	1,070,935	–	–	25,916,440
Accrued interest receivable	220,407,218	-	–	–	220,407,218
Loans receivable	-	19,960,000	–	–	19,960,000
Advances for future stocks subscriptions	121,273,000	-	–	–	121,273,000
Other receivables	17,170,676	3,149,817	–	–	20,320,493
Short-term investments	276,551,385	–	–	–	276,551,385
Long-term investments	–	–	854,375,594	–	854,375,594
AFS financial assets	–	–	–	1,645,370,276	1,645,370,276
	P,=1,428,393,684	P,=4,840,430,716	P,=11,375,560,400	P,=1,645,370,276	P,=19,289,755,076

(Forward)

	Up to 1 year	1-3 years	over 5 years	No term	Total
Financial liabilities					
Other financial liabilities					
Accounts payable -CaMIA	P,=1,340,685	P,=–	P,=–	P,=–	P,=1,340,685
Claims payable	98,052,285	–	–	–	98,052,285
Collection fee payable	22,902,073	–	–	–	22,902,073
Accrued expenses	21,179,520	–	–	–	21,179,520
Lease Liabilities	4,196,266	605,468	–	–	4,801,734
	P,=147,670,829	P,=605,468	P,=–	P,=–	P,=148,276,297

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

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

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

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

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

Currency risk
The Association's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to U.S. dollars, in which some of its investments are denominated.

The following table shows the details of the Association's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalents.

	2020		2019	
	U.S. Dollar[1]	**Peso Equivalent**	U.S. Dollar[1]	Peso Equivalent
Cash in bank	**$5,540**	**P,=266,063**	$12,681	P,=642,112
Cash equivalents	**489,854**	**23,524,245**	–	–
Short-term investments	**5,732**	**275,277**	487,676	24,693,053
Total	**$501,126**	**P,=24,065,585**	$500,357	P,=25,335,165

[1] The exchange rate used was P,=48.02 to US$1.00 in 2020 and P,=50.64 to US$1.00 in 2019.

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

	Currency	Increase (decrease) in Philippine Peso rate	Effect on Profit
2020	**USD**	**+0.10**	**P,=2,406,407**
		-0.10	**(2,406,407)**
2019	USD	+0.10	P,=2,533,807
		-0.10	(2,533,807)

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

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

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

As of December 31, 2020 and 2019, the Association does not have financial instruments which have repricing interest.

2020

	Range of interest rate	**Up to a year**	**Over one (1) year**
Cash and cash equivalents-regular deposit	0.05% to 1.50%	**P,=160,998,942**	**P,=–**
Cash and cash equivalents-time deposits	0.10% to 3.50%	**430,007,683**	**–**
Short-term investments	0.38% to 4.00%	**257,315,208**	**–**
Long term investments	4.00% to 6.00%	**–**	**2,668,696,325**
HTM investments	1.25% to 8.06%	**–**	**16,573,941,641**
Total financial assets		**P,=848,321,833**	**P,=19,242,637,966**

2019

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents-regular deposit	0.05% to 1.50%	P,=186,955,522	P,=–
Cash and cash equivalents-time deposits	3.12% to 3.80%	360,549,762	–
Short-term investments	1.25% to 4.00%	276,551,385	–
Long term investments	4.00% to 6.00%	–	854,375,594
HTM investments	3.25% to 8.06%	–	15,558,075,386
Total financial assets		P,=824,056,669	P,=16,412,450,980

Price risk
The Association's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS investments. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

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

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

	2020		2019	
Change in NAVPS	**+10%**	**-10%**	+10%	-10%
Mutual Funds	**₱47,360,908**	**(₱47,360,908)**	₱44,323,038	(₱44,323,038)
Unit Investment Trust Fund	**7,643,210**	**(7,643,210)**	7,312,364	(7,312,364)

27. Commitment and Contingencies

There were no commitments, guarantees and contingent liabilities that arose in the normal course of the Association's operations which are not reflected in the Association's financial statements. As of December 31, 2020 and 2019, management is of the opinion that losses, if any, from these commitments, guarantees and contingent liabilities will not have a material effect on the Association's financial statements.

28. Appropriated Fund Balance

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

	Guaranty fund	CARD MRI Disaster Relief Assistance Program	Experience Refund	Enhancement of IT system	Total
At January 1, 2019	₱137,861,701	₱3,578,091	₱542,756	₱82,322,396	₱224,304,944
Appropriation	87,200,000	80,000,000	–	197,632,531	364,832,531
Reversal of Appropriation	–	(3,578,072)	–	–	(3,578,072)
Utilization of Appropriation	–	(55,929,693)	–	–	(55,929,693)
At December 31, 2019	225,061,701	24,070,326	542,756	279,954,927	529,629,710
Appropriation	**532,000**	**49,567,510**	**–**	**–**	**50,099,510**
Utilization of Appropriation	**–**	**(68,667,695)**	**–**	**–**	**(68,667,695)**
At December 31, 2020	**₱225,593,701**	**₱4,970,141**	**₱542,756**	**₱279,954,927**	**₱511,061,525**

The Association is required to increase the guaranty fund based on the 5.00% annual gross premium collections until the guaranty fund reaches 12.50% of the minimum paid up capital for domestic life insurance companies or ₱125.00 million, whichever is higher.

The Association appropriated ₱49.57 million and ₱80.00 in 2020 and 2019, respectively for CDRAP aimed at providing relief assistance to its members and dependents during calamities and other disasters in the form of cash or relief goods. In 2020 and 2019, reversal and utilization of appropriation amounted to ₱68.67 million and ₱59.51 million, respectively.

29. Maturity Profile of Assets and Liabilities

The table below presents the assets and liabilities of the Association as of December 31, 2020 and 2019 analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the reporting date:

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	P,=591,126,625	P,=–	P,=591,126,625	P,=547,505,284	P,=–	P,=547,505,284
Financial assets at FVTPL						
Loans and receivables – net	282,683,294	2,683,307,234	2,965,990,528	443,520,951	878,556,346	1,322,077,297
HTM investments	1,903,290,259	14,670,651,382	16,573,941,641	220,640,616	15,337,434,770	15,558,075,386
AFS financial assets	–	1,634,284,391	1,634,284,391	–	1,645,370,276	1,645,370,276
Accrued income	283,510,335	–	283,510,335	220,407,218	–	220,407,218
	3,060,610,513	18,988,243,007	22,048,853,520	1,432,074,069	17,861,361,392	19,293,435,461
Nonfinancial Assets						
Property and Equipment	P,=–	P,=170,316,320	P,=170,316,320	P,=–	162,998,426	162,998,426
Right-of-use Assets	–	14,556,357	14,556,357	–	10,434,011	10,434,011
Investment Properties	–	404,790,155	404,790,155	–	405,761,651	405,761,651
Investments in Associates	–	1,142,545,741	1,142,545,741	–	946,624,769	946,624,769
Pension Asset	–	49,119,906	49,119,906	–	43,261,782	43,261,782
Other Assets	13,936,667	3,484,123	17,420,790	14,334,618	2,911,950	17,246,568
	13,936,667	1,784,812,602	1,798,749,269	14,334,618	1,571,992,589	1,586,327,207
	3,074,547,180	20,773,055,609	23,847,602,789	1,446,408,687	19,433,353,981	20,879,762,668
Less: Allowance for credit losses			1,686,009			6,564,599
Accumulated depreciation – property and equipment			64,962,259			51,656,856
Accumulated depreciation – ROU Asset			7,764,015			5,705,313
Accumulated depreciation – Investment properties			66,139,257			52,812,220
			P,=23,707,051,249			P,= 20,763,023,680
Financial Liabilities						
Accounts payable and accrued expenses	P,=70,699,966	P,=–	P,=70,699,966	P,=43,424,017	P,=–	P,=43,424,017
Lease liabilities	5,307,875	1,047,702	6,355,577	4,196,266	605,468	4,801,734
	76,007,841	1,047,702	77,055,543	47,620,283	605,468	48,225,751
Nonfinancial Liabilities						
Insurance contract liabilities	–	10,769,367,158	10,769,367,158	–	9,306,435,713	9,306,435,713
Retirement fund	–	7,108,784,001	7,108,784,001	–	5,990,697,711	5,990,697,711
	–	17,878,151,159	17,878,151,159	–	15,297,133,424	15,297,133,424
	76,007,841	17,879,198,861	P,=17,955,206,702	47,620,283	15,297,738,892	P,= 15,345,359,175

30. Subsequent Events

Continuing COVID-19 pandemic

Because of the coronavirus disease 2019 (COVID-19) pandemic, the Company is exposed to a number of trends and uncertainties which can affect its financial performance. These include levels of general economic activity and its effect on the disposable incomes of households in the Philippines.

Various levels of community quarantine throughout the country have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The scale and duration of these developments continue to be uncertain as of the report date. The Company observed declines in its revenues. However, it is not possible to estimate the overall impact of the pandemic's near-term and longer-term effects. The Company has incurred and will continue to incur costs as it continues to mitigate the adverse effects of the pandemic on its operations. The pandemic could have a material impact on the Company's financial results for the rest of 2021 and even periods thereafter. Considering the evolving nature of the pandemic, the Company will continue to monitor the situation.

<u>CREATE Act</u>
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25% and minimum corporate income tax rate of 1% effective July 1, 2020.

Based on the provisions of Revenue Memorandum Circulars (RMC) No. 50-2021 dated April 5, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 27.50%. This will result in lower provision for current income tax for the year ended December 31, 2020 amounting to ₱916,707, or a reduction of ₱83,337. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

31. Approval of the Financial Statements

The accompanying financial statements of the Association were approved and authorized for issue by the Board of Trustees on April 29, 2021.

32. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2020:

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

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

   The Association paid Output VAT from its rental income and interest earned from loans receivables amounting ₱2.04 million and ₱0.10 million, respectively.

b. The Association did not incur any input VAT in 2020.

Information on the Association's importations

The Association does not undertake importation activities.

Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption 'Taxes and Licenses' under the 'General and Administrative Expenses' section in the Association's Statement of Comprehensive Income.

Details consist of the following in 2020:

Local tax	
License and permit fees	₱2,848,704
Real property taxes	1,274,874
Others	117,969
	4,241,547
National tax	
Registration fees	26,700
	₱4,268,247

c. Withholding Taxes

   Details consist of the following:

	Remitted	December 31, 2020
Withholding taxes on compensation and benefits	₱504,970	₱46,600
Expanded withholding taxes	2,846,313	397,811
	₱3,351,283	₱444,411

d. Tax Assessments and Cases

On January 23, 2020, the Association received a letter from the OIC-Revenue District Officer of BIR Revenue District Office No. 055-East Laguna, in response to the Association's request for the issuance of certificate of tax exemption, opining that the Association "does not qualify for exemption under Section 30 (G) of the NIRC, as amended, and, therefore, is liable for regular corporate income tax imposed under Title II of the same Code and other applicable taxes such as Value Added Tax (VAT) or Percentage Tax on the alleged ground that its primary source of income is the gross premiums on insurance contracts as this indicates that the Association is a credit facility or a financing enterprise administered for profit.

The Association's Legal Counsel duly protested the same and filed on February 20, 2020 its position paper thereto.

Currently, the matter has been referred to the Legal Division of the BIR's Revenue Region No. 09 for appropriate action. The resolution on this matter is on-going.

Management together with its Legal Counsel assessed that it is highly probable that BIR will accept the uncertain tax treatment.