CLIMBS
Since 1971

CLIMBS

Life and General Insurance Cooperative

amidst climate change

40 years
of service to the Filipino cooperators

Annual Report 2011

FOUNDING FATHERS OF CLIMBS

Atty. Mordino R. Cua
Chairman
(1971-1988) & (1992-2000)

Atty. Aquilino Pimentel, Sr.

CLIMBS PAST CHAIRPERSONS

Amaure S. Dalisay
Sta.Ana Multi-Purpose Cooperative(SAMULCO)
(1989-1991)

Avelino L. Castillo
Valenzuela Market Vendors Cooperative
(1995-1997)

Atty. Antonio A. Alcantara
Perpetual Help Credit Cooperative, Inc.(PHCCI)
(2004-2005) CLASP

Gonzalo A. Salvatiera, Jr.
Visayas Cooperative Training Center(VICTO)
(1990)

Rogelio N. Dela Cruz
Perpetual Help Credit Cooperative, Inc.(PHCCI)
(1998-1999)

Atty. Daniel O. Evangelio, Jr.
Toril Community Cooperative
(2004-2006) CLIMBS

Jose Loreto O. Procianos, Jr.
Misamis Oriental Federation of Cooperatives(MOFECO)
(1992-1994)

Bienvenido A. Dela Cruz
Sta. Ana Multi-Purpose Cooperative(SAMULCO)
(2000-2003)

(Ret.) Judge Esperanza F. Garcia
Cebu CFI Community Cooperative
(2005-2006) CLASP
(2006-present)
CLIMBS Life & General Insurance Cooperative

CLIMBS MANAGERS

Atty. Mordino R. Cua
Managing Director
(1971-1993)

Fermin L. Gonzales
National Marketing Manager(1987-1994)
President & CEO(1994-Present)

BOARD OF DIRECTORS 2011-2012

Judge Esperanza F. Garcia(Ret.)
Chairperson
Cebu CFI Community Cooperative

Cecille M. Laguna
Vice Chairperson
First Community Cooperative

Ma.Evelyn T. Gemeda
Director
Metro Ormoc Community Cooperative

Marlene D. Sindayen
Director
Novaliches Development Cooperative

Nenita E. Lumaad
Director
Tagum Cooperative

Rene A. Lim
Director
Agdao MPC

Atty. Daniel O. Evangelio
Director
Toril Community Cooperative

Joselito O. Santillan
Director
Sta. Ana MPC

Susan D. Positos
Independent Director
MSU-IIT MPC

Fiscal Adrian C. Borromeo
Independent Director
Bais City Officials and Employees MPC

Wilma P. Salas
Independent Director
Maripipi MPC

COMMITTEES

Atty. Rolando C. Casaway
Corporate Secretary

Profetiza S. Lim
Election Committee
PHCCI

Mansueto V. Dela Peña
Election Committee
Oro Integrated Coop

Romeo R. Busalla
Conciliation Committee
Toril Community Cooperative

Alma R. Jaranilla
Conciliation Committee
Cebu CFI Community Cooperative

Nenita R. Malbas
Conciliation Committee
Tagum Cooperative

MANAGEMENT TEAM

Fermin L. Gonzales
President & CEO

Jorge G. Lumasag, Jr
Executive Vice-President & COO

Noel D. Raboy
Vice-President for Marketing

Roy S. Miclat
Life Division Manager

Jesus Antonio R. Dosdos
Non-Life Division Manager

Henry Lopez
CLIFSA General Manager

Message from the Chairperson

Dear Fellow Cooperators,

Climate change has resulted to extreme weather disturbances such as excessive rainfall and extreme wind speed. This kind of change is dreadful and the major reason for natural disaster. Our country topped the 2011 disaster list drawn up by the United Nation with 33 major incidents affecting 12.5% of the population (Philstar). Notable disaster was tropical storm "Sendong" that struck Mindanao in mid-December 2011, particularly CLIMBS Home Office, Cagayan de Oro.

Repeated disaster incidence is a reminder to us all that we cannot afford to ignore the risk that it will and it will happen again. Unless we prepare for the worst, then many disaster prone areas around the country where cooperatives operates are destined to see even greater loss of lives and properties.

Our entry to the non-life insurance industry in April 21, 2010 and our first whole year operation in 2011 show a positive bottom-line. Our decision to pursue the non-life insurance service is justified and proven beneficial when disaster occur in the like of tropical storm "Sendong." The role of insurance in such a case is to mitigate and recompense the catastrophic financial losses that will help in rebuilding the life of cooperative member. CLIMBS paid =P= 4.64 million in property losses in the "Sendong' disaster.

While cooperative aim toward achieving economic development of member, let us erase the illusion that they will not be affected by disaster caused by climate change, along the way of their endeavor for economic growth let us address the very basic and fundamental problem of financial protection by providing them available and affordable insurance for the things they value most, their life and their property. Although it is important to note that mitigating financial losses through insurance has some costs, it cannot be compared to the substantial costs of losses associated with no insurance protection. So let us not wait for disaster to happen before we act in protecting our members. Let's determine the probable losses when disaster occur and give priority in providing our members the appropriate insurance. The best time to prepare and protect our members from disaster is now when good weather prevails and nothing happen yet.

CLIMBS amidst CLIMATE CHANGE, recognizes the exigency of protecting cooperative and members from financial losses, aside from marketing a tax-exempt affordable non-life insurance services, CLIMBS is setting up a CLIMBS Institute for Financial Literacy that is geared toward the education aspect of protecting cooperative and member. This institute utilizes income from the pooled Cooperative Education and Training Fund (CETF) thus, CETF contributed to CLIMBS Institute for Financial Literacy from affiliates will never be an expense.

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Tackling these immense challenges of educating and protecting our member, let us bind ourselves together with unwavering support by pooling our collective resources. CLIMBS amidst CLIMATE CHANGE, will continue to carve its name in providing non-life insurance services, it will be an uphill climb and sustainable success that will require unprecedented cooperation across its affiliates and CLIMBS will be reliant on your patronage as co-owner of this insurance cooperative.

Kudos to all of us.

JUDGE ESPERANZA F. GARCIA(RET.)
CHAIRPERSON

Message from the President/CEO

"Our *Strategic Position* to *Accelerate Growth* is thru our *Coop Assurance Center* in partnership with *Cooperative Affiliates*."

Dear Fellow Cooperators,

First of all, allow me to thank CLIMBS for giving me the fulfilling opportunity to work for cooperative advancement and well-being spanning more than two decades. This year is my silver jubilee. Hence, my personal milestone. Looking back, I could not imagine spending 15 years of my life with multi-purpose cooperatives and 25 years of it for cooperative insurance. I have seen CLIMBs grow from that of a mutual benefit association and become a composite cooperative insurance.

The great Chinese general once said: "What got us here might not take us there." This dictum serves as my constant reminder. Our core values run in tandem with our plans and strategies. It has indeed strengthened our current position but it may not necessarily ensure or sustain our success. It is imperative that our leaders, management and members continue to innovate and evolve until we get to carve our own share of the cooperative insurance niche which will serve as our legacy. CLIMBS kicked off the reinvention scheme in 2000 by establishing the CoopAssurance Center(CAC) its channel of distribution. It was consequently followed by shifting the marketing personnel from that of paid-staff to agents paving the way to the incorporation of CLIFSA; our in-house marketing arm. From these undertakings was born CLASP; its own insurance cooperative. It facilitated the merger of the two organizations: CLIMBS and CLASP. In 2009, we successfully put-up a composite insurance cooperative known as the CLIMBS Life and General Insurance Cooperative owned by more than 2000 cooperative primaries and federations all over the Philippines.

Nothing is stopping us from moving forward. We have already put-up our very own CLIMBS Institute for Financial Literacy. It shall evolve into a Cooperative Institute of Management. We firmly believe that an enlightened leadership, management and members will surely enhance the growth and progress of an organization such as ours. We acknowledge the fact that all these were realized due to the unconditional support of the CLIMBS stakeholders. Above it all, we express our utmost gratitude to our Almighty God who is the source of our strength and from whom our inspiration and force are drawn from as we make things happen.

FERMIN L. GONZALES
PRESIDENT / CEO

Board of Directors & Management Report

Dear CO-OWNER of CLIMBS,

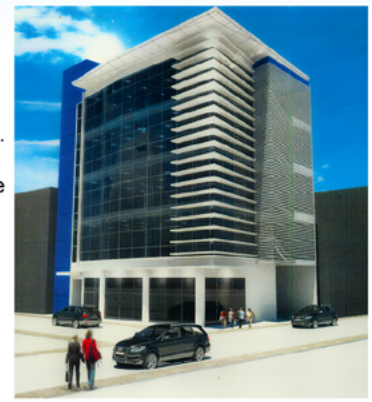
The recent tropical storm "Sendong" which has affected the CLIMBS home-base put to test its new line of business: ***the non-life insurance***, the object in the adoption of the theme **"CLIMBS amidst CLIMATE CHANGE."**

Typhoon Sendong

Typhoon Sendong hit the region with a surprise and displaced many Kagay-anons. Among them are CLIMBS employees including the President. Though this has caused a great financial set-back among the victims, help was readily given to CLIMBS employees. It was systematically arranged through cash donations from cooperatives, partners, directors and colleagues amounting to Php 1.3 million. It was promptly distributed to the affected CLIMBS employees. The CLIMBS family therefore, would like to take this opportunity to express our sincere appreciation to those who extended a helping hand in varied forms. CLIMBS in return, granted Php 250,000.00 worth of financial assistance to the victims as part of its Cooperative Social Responsibility coursed through the ABS CBN Sagip Kapamilya Foundation.

Barely two years in operation, our Non-Life Insurance Division was challenged by Typhoon Sendong as it incurred a property claim amounting to Php 4.64 million. However, on the other side, our dream was realized in support of our decision to engage into this line of business. It had been justified as well as proven valuable to members when indeed the disaster occurred. Our Life Insurance Division also incurred claims amounting to Php 3.2 million with 29 lives paid.

NEW DEVELOPMENT



CLIMBS Commercial Building Complex

Several projects are also in line for this year, one of which is the construction of the CLIMBS Commercial Complex. It was awarded approval from the Insurance Commission as an admitted asset. Construction will start in May 2012 with an estimated budget of Php 22 million. Since this building is situated at the city proper, it is deemed an avenue which shall bring about positive features, advantage and an additional profit scheme to the cooperative coffers.

CLIMBS Institute for Financial Literacy

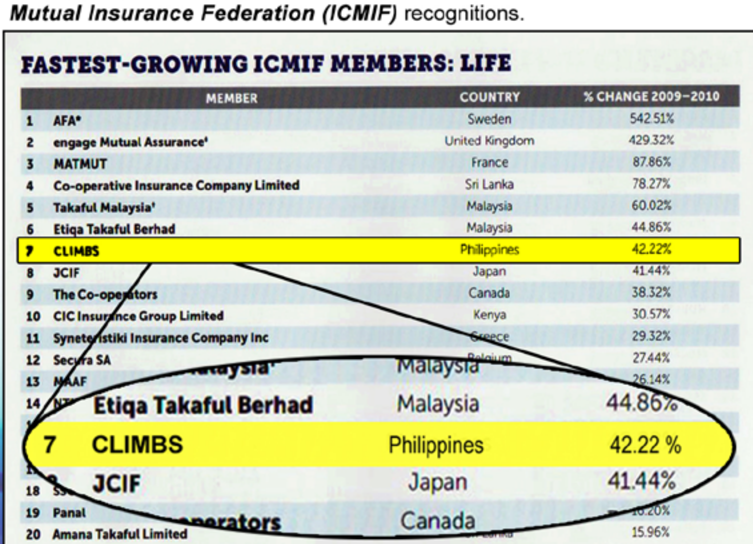
Perhaps the most significant achievement that CLIMBS have attained is by far the implementation of the CLIMBS Institute for Financial Literacy. It was inaugurated last November 2011. This endeavor is envisioned to further strengthen the cooperative movement through training and education.

This is a skills-building development-based program targeting the cooperatives' directors and management aimed at higher level training needs as cooperatives evolve and forge stronger business enterprises to better equip them with risk management tools while preparing them to be at par with the corporate world.

Through this brainchild, CLIMBS shall rally the support of the cooperatives through "CETF Partners." A unique concept in which the CETF fund shall be pooled in a trust fund and invested where only its income may be utilized for the Institute's operation. Partner cooperatives' CETF contribution to CLIMBS Financial Literacy Institute will never be classified as an expense as it entitles their respective coop leaders free training with International Citation.

ICMIF Recognition

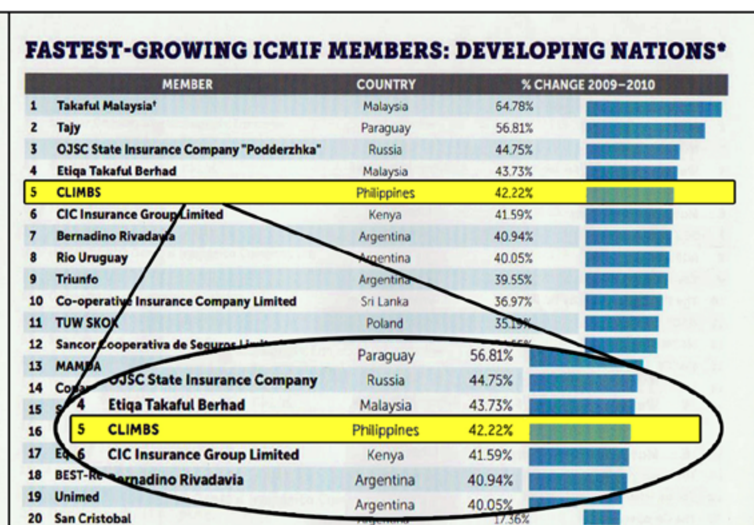
While gaining our ground at an early stage in the non-life insurance industry, CLIMBS is elated and grateful in receiving the ***International Cooperative and Mutual Insurance Federation (ICMIF)*** recognitions.



FASTEST-GROWING ICMIF MEMBERS: LIFE

	MEMBER	COUNTRY	% CHANGE 2009–2010
1	AFA*	Sweden	542.51%
2	engage Mutual Assurance'	United Kingdom	429.32%
3	MATMUT	France	87.86%
4	Co-operative Insurance Company Limited	Sri Lanka	78.27%
5	Takaful Malaysia'	Malaysia	60.02%
6	Etiqa Takaful Berhad	Malaysia	44.86%
7	CLIMBS	Philippines	42.22%
8	JCIF	Japan	41.44%
9	The Co-operators	Canada	38.32%
10	CIC Insurance Group Limited	Kenya	30.57%
11	Syneteristiki Insurance Company Inc	Greece	29.32%
12	Secura SA	Belgium	27.44%
13	MAAF	[illegible]	26.14%
14	[illegible]	[illegible]	[illegible]
15	[illegible]	[illegible]	[illegible]
16	[illegible]	[illegible]	[illegible]
17	[illegible]	[illegible]	[illegible]
18	[illegible]	[illegible]	[illegible]
19	Panal	[illegible]	16.20%
20	Amana Takaful Limited	[illegible]	15.96%

7	CLIMBS	Philippines	42.22 %



FASTEST-GROWING ICMIF MEMBERS: DEVELOPING NATIONS*

	MEMBER	COUNTRY	% CHANGE 2009–2010
1	Takaful Malaysia'	Malaysia	64.78%
2	Tajy	Paraguay	56.81%
3	OJSC State Insurance Company "Podderzhka"	Russia	44.75%
4	Etiqa Takaful Berhad	Malaysia	43.73%
5	CLIMBS	Philippines	42.22%
6	CIC Insurance Group Limited	Kenya	41.59%
7	Bernadino Rivadavia	Argentina	40.94%
8	Rio Uruguay	Argentina	40.05%
9	Triunfo	Argentina	39.55%
10	Co-operative Insurance Company Limited	Sri Lanka	36.97%
11	TUW SKOK	Poland	35.19%
12	Sancor Cooperativa de Seguros [illegible]	[illegible]	[illegible]
13	MAMDA	[illegible]	[illegible]
14	[illegible]	[illegible]	[illegible]
15	[illegible]	[illegible]	[illegible]
16	[illegible]	[illegible]	[illegible]
17	[illegible]	[illegible]	[illegible]
18	BEST-Re	[illegible]	[illegible]
19	Unimed	[illegible]	[illegible]
20	San Cristobal	Argentina	17.36%

5	CLIMBS	Philippines	42.22%

Tie-up with Medical Institutions

Another, is the setting up of partnership with local hospitals and clinics in Cagayan de Oro City. It has received promising and positive responses from our prospective partners. This is of course another avenue of reaching out to the poor cooperative members as well as the public. It means enhanced access to affordable and quality medical as well as health services. This endeavor shall pave the way to our plan of completing the financial protection of our stakeholders as it now includes health.

Repositioning of Key Personnel

The year 2011, marked a huge movement in the CLIMBS operation. It started with the repositioning of its key personnel: Jorge G. Lumasag,Jr. now sits as the EVP/COO while Noel D. Raboy took over his position as VP for Marketing. CLIFSA which was under the wheel of Raboy is now in the care of Henry M. Lopez, the former RMM of Cebu as Sylvia R. Quinesio took over his vacated position. Several other movements and the filling-in of key positions were also made to further ensure efficiency in management and operations.

The reassignment of responsibilities is coupled with greater challenges and hope that this newly organized management team fully embraces the conviction of following the tall order of a new target for this year: Php 850 million, Php 520 million for 2011.

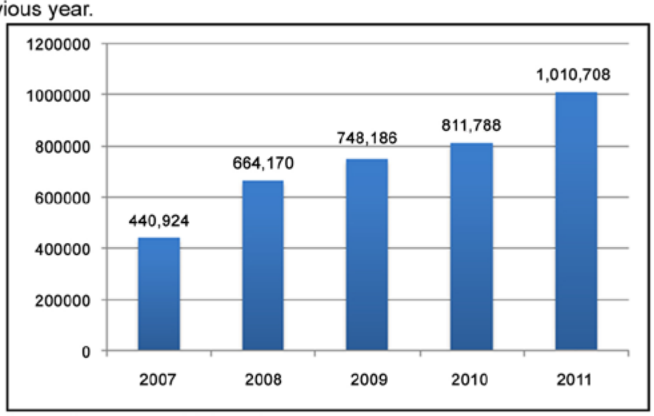
Table A. Key Financial Highlights

	2011		2010		2009	
Assets	739.31	100.0%	484.85	100.0%	331.24	100.0%
Cash	205.05	27.7%	185.06	38.2%	122.16	36.9%
Investments	444.48	60.1%	237.18	48.9%	180.51	54.5%
Insurance Receivables	19.79	2.7%	2.22	0.5%	2.12	0.6%
Property & Equipment	55.17	7.5%	45.54	9.4%	21.20	6.4%
Legal Reserves	279.05	37.7%	160.92	33.2%	97.78	29.5%
Equity	244.27	33%	205.53	42.4%	171.34	51.7%
Net Premium	568.16	100.0%	353.57	100.0%	247.47	100.0%
Investment / Other Inc	27.58	4.9%	38.99	11.0%	18.39	7.4%
Gross Revenue	595.74	104.9%	392.56	111.0%	265.86	107.4%
Claims	252.66	44.5%	150.85	42.7%	85.22	34.4%
Policy Reserves	106.03	18.7%	65.16	18.4%	40.83	16.5%
Collection Expense	134.88	23.7%	97.33	27.5%	73.08	29.5%
Salaries / Benefits	23.82	4.2%	15.42	4.4%	12.53	5.1%
Other Expenses	37.77	6.6%	30.08	8.5%	29.04	11.7%
Total Expenses	555.16	97.7%	358.84	101.5%	240.70	97.3%
Net Income	40.58	7.1%	33.72	9.51%	25.16	10.2%

BUSINESS PERFORMANCE

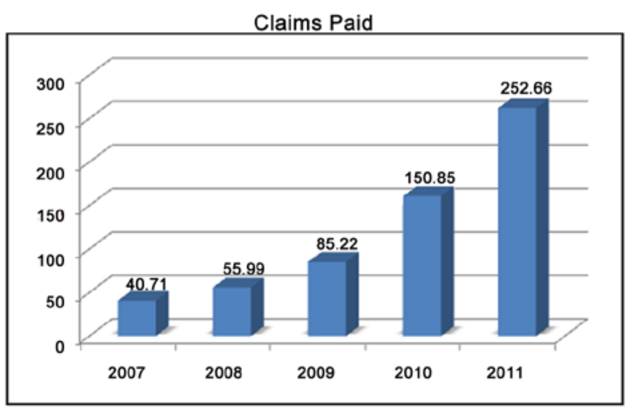
Policy holder

The Non-life division has 3,047 policy issued in 2011 and the Life Division policy holders registered an increase of 195,873 with 24% growth from the previous year.



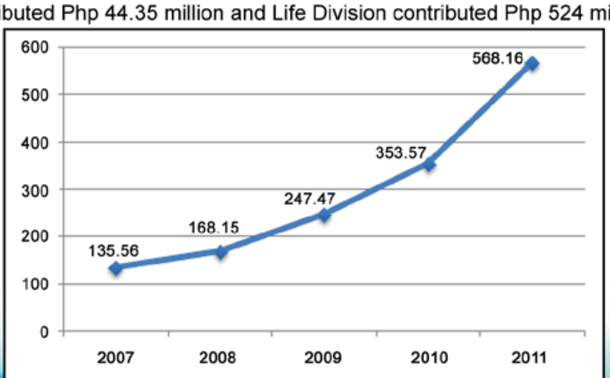
Claims Paid (in millions)

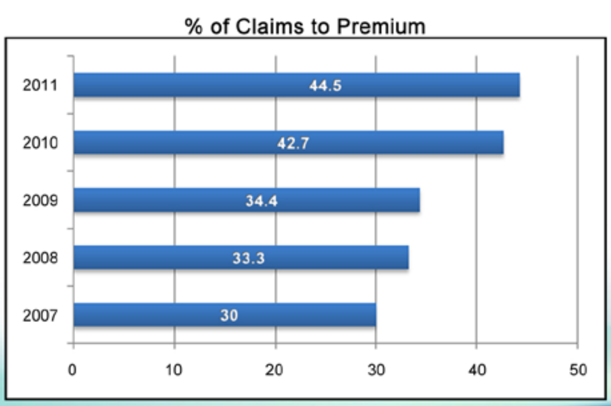
The Non-life division claims amounted to Php 6.89 million while the Life division claims amounted to Php 244.34 million, the total of which is Php 252.66 million. It represents 44% of the premium.



Net Premium (in millions)

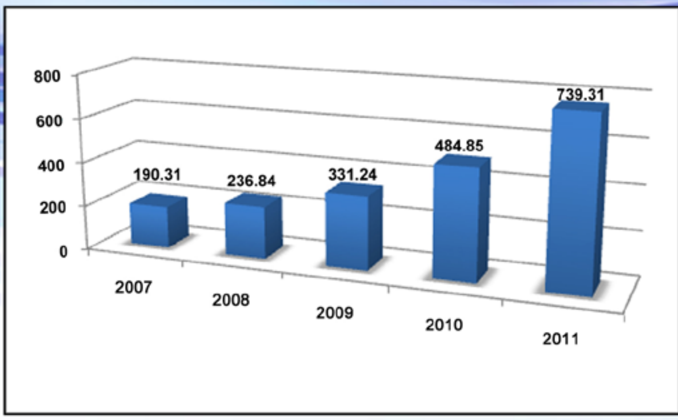
The net premium grew 60% from the previous year. The Non-life division contributed Php 44.35 million and Life Division contributed Php 524 million.





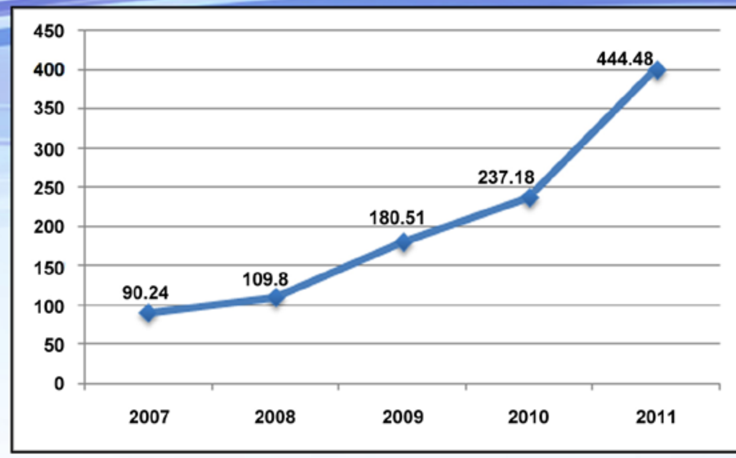
Total Assets (in millions)

The Asset showd a 53% growth rate from the previous year.



Investment

Increase of 87% in investment including placement at the Registry of Scripless Security (RoSS) to fully fund our legal policy reserves. This means that CLIMBS has complied with the requirement of the Insurance Commission.



CONTINUING THRUST

Non-Life and CLIMBS Weather Protect

Given the two-year operation since our non-life department started, it was able to overshoot its target of Php 40 million this year. It has a 120% rate of increase and has garnered a net surplus of Php 3.3 million.

Promotion for the CLIMBS Weather Protect (CWP) was also intensive in 2011; complete with roadshows made in the Visayas and the Mindanao region. Given the fact that the CWP is a new insurance product and was only recently fully introduced, several cooperatives already saw its strategic protection coverage against extreme weather events common in our country due to our location in the typhoon belt.

The CoopAssurance Center (CAC)

The role of CoopAssurance Center (CACs) has also been given a vigorous thrust being a positive and viable 'one-stop-shop' for financial services to the cooperative members thereby adding access to the micro insurance products and services. It revitalized development and enhanced programs. These plans of action and fine-tuning ensured that the establishment of CACs visibility and viability throughout the country will be fully functional and sustainable.

CLIMBS Thrust for 2012

1. Total of 103 fully functional CACs
2. Financial Literacy
3. Premium Target of Php 850 million
4. Affiliate increase by 20% or 160 coops (based on the 5-year strategic plan)

CLIMBS will uncompromisingly continue its advocacy to make the cooperative insurance accessible to the grassroots members of the society. CLIMBS continually envisions the creation of products and services, including trainings and education, to further enhance the capabilities and skills thereby enabling our stakeholders for an empowered journey in our quest for social transformation and people advancement.

On behalf of CLIMBS Board of Directors, Management and Staff, we would like to extend our heartfelt gratitude to our member cooperatives for your valuable support and continuous confidence to CLIMBS and we look forward to another prolific 2012!

FERMIN L. GONZALES
President & CEO

JUDGE ESPERANZA F. GARCIA (RET).
Chairperson

ASIAN
ACTUARIES
INC.

STATEMENT OF OPINION

I, **Panfilo P de la Paz**, consulting actuary of **CLIMBS Life and General Insurance Cooperative**, express the opinion that, based on the data supplied to me by Christopher C. Gabule-Actuarial in Charge and Investment Officer of CLIMBS, the legal policy reserves and claim reserves of CLIMBS as of 31 December 2011 broken down as follows:

Policy reserves (including unearned premium)	:	128,319,414.91
Equity reserves (Mutual Aid System)	:	7,443,002.59
Claims Payable (Net Liability)	:	61,685,252.91

are adequate and accurate. The calculations of the legal policy reserves are based on reasonable actuarial assumptions and are in accordance with generally accepted actuarial principles.

PANFILO P DE LA PAZ, FASP, FSA
Consulting Actuary
PTR No 3941
January 11, 2012

12 April 2012

3/F VGP Center (formerly ManilaBank Bldg.) Ayala Ave. Makati City
Tel: 810-1058 & 752-0963 Fax: 810-1058 E-mail: pdelapaz@globelines.com.ph

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE
Home Office: CoopLife Bldg., Zone 5, National Highway, Bulua, 9000 Cagayan de Oro City, Phils
Telefax Nos.: (08822) 738738; (088) 8561355 Tel. Nos. (08822) 738722; 738886 *** email: head_office@climbs.coop

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of CLIMBS Life and General Insurance Cooperative is responsible for all information and representations contained in the consolidated financial statements of the Cooperative for the year ended December 31, 2011. The consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. Likewise, the Cooperative discloses to the its audit committee and to its external auditors: (1) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (2) material weaknesses in the internal controls, and (3) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the shareholders of the Cooperative.

Quilab Cabilin Bato & Co, CPAs, the independent auditors appointed by the Board of Directors, have audited the consolidated financial statements of the Cooperative in accordance with Philippine Standards on Auditing and have expressed opinion on the fairness of presentation upon completion of such audit, in their report to the Board of Directors and shareholders.

April 11, 2012, Bulua, Cagayan de Oro City.

FERMIN L. GONZALES
President and CEO

JORGE G. LUMASAG, JR.
Executive Vice President /COO

REYNALDO G. SAN ANDRES
Compliance Officer

QCB & Co

◆ QUILAB CABILIN BATO & Co
2F Executive Centrum Building
J.R. Borja St., Cagayan de Oro City
9000 Philippines

63 (08822) 72-7515, (088) 856-4401
qcb_co@yahoo.com

◆ Accreditations
NEA Accreditation No. 2011-10
IC Accreditation No. F-0042-R
BSP Letter dated July 20, 2011

BOA/PRC Reg. No. 0250
SEC Accreditation No. 0182-F

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
CLIMBS Life and General Insurance Cooperative

We have audited the accompanying consolidated financial statements of CLIMBS Life and General Insurance Cooperative and Subsidiary, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CLIMBS Life and General Insurance Cooperative and Subsidiary as of December 31, 2011, and of its financial performance and its cash flows for the year then ended, in accordance with Philippine Financial Reporting Standards.

Other Matter
The consolidated financial statements of CLIMBS Life and General Insurance Cooperative for the year ended December 31, 2010, were audited by another auditor, whose report, dated April 8, 2011, on those statements, was unqualified.

Quilab Cabdin Bato & Co

PTR No. CDO 2101191 A
January 2, 2012
Cagayan de Oro City

March 30, 2012
Cagayan de Oro City, Philippines

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CLIMBS Life and General Insurance Cooperative and Subsidiary

(With Comparative Figures as of December 31, 2010)

December 31	**2011**	2010
ASSETS		
Cash and Cash Equivalents *(Note 4)*	**₱205,049,916**	₱185,058,256
Insurance Receivables *(Note 5)*	**19,790,964**	2,223,616
Held-to-Maturity Investments *(Note 6)*	**303,182,658**	77,334,323
Available-for-Sale Financial Assets *(Note 7)*	**141,299,977**	159,844,129
Loans and Receivables *(Note 8)*	**4,100,173**	5,434,826
Investment Property *(Note 9)*	**7,190,947**	7,420,341
Property and Equipment *(Note 10)*	**47,983,545**	38,120,802
Other Assets *(Note 11)*	**10,707,714**	9,415,226
	₱739,305,894	₱484,851,519
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Insurance contract liabilities *(Note 12)*	**₱279,046,117**	₱160,919,806
Insurance payables *(Note 12)*	**169,814,756**	75,674,992
Trade and other payables *(Note 13)*	**16,968,669**	20,080,957
Interest on capital, patronage and experience refund payable *(Note 19)*	**29,208,312**	22,642,424
Total Liabilities	**495,037,854**	279,318,179
Shareholders' Equity		
Share capital *(Note 14)*	**205,528,428**	180,878,055
Statutory reserves *(Note 15)*	**38,739,612**	24,655,285
	244,268,040	205,533,340
	₱739,305,894	₱484,851,519

See Notes to Consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

CLIMBS Life and General Insurance Cooperative and Subsidiary

((With Comparative Figures for the Year Ended December 31, 2010)

Year Ended December 31	**2011**	2010
REVENUE		
Gross premiums on insurance contracts	**₱576,558,797**	₱359,495,294
Less reinsurers' share of gross premiums on insurance contracts	**8,398,218**	5,922,794
Net insurance premiums	**568,160,579**	353,572,500
Investment income	**23,793,408**	28,530,152
Commissions earned and other underwriting income	**1,401,855**	6,735,142
Other income	**2,383,067**	3,729,426
	595,738,909	392,567,220
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims paid on insurance contracts	**257,230,254**	152,013,235
Increase in legal policy reserves	**106,027,052**	65,161,232
Reinsurers' share of gross benefits and claims paid	**(4,567,098)**	(1,158,533)
Net insurance benefits and claims	**358,690,208**	216,015,934
Collection costs	**134,881,483**	97,329,709
General and administrative *(Note 17)*	**32,826,715**	26,974,961
Salaries, wages, officers' and employees' benefits *(Note 18)*	**23,823,428**	15,423,775
Depreciation *(Notes 9 and 10)*	**4,934,760**	3,099,736
	555,156,594	358,844,115
PROFIT FOR THE YEAR *(Note 19)*	**₱40,582,315**	₱33,723,105
Earnings Per Common Share *(Note 20)*	**₱94.82**	₱88.90

See Notes to Consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CLIMBS Life and General Insurance Cooperative and Subsidiary
(With Comparative Figures as of December 31, 2010)

December 31	**2011**	2010
SHARE CAPITAL *(Note 14)*		
Preferred Shares – ₱1,000 Par Value		
Opening balances	**₱61,159,000**	₱53,361,000
Additional investments received during the year	**4,219,000**	7,798,000
Closing balances	**65,378,000**	61,159,000
Common Shares – ₱1,000 Par Value		
Opening balances	**119,718,000**	99,428,000
Additional investments received during the year	**20,431,000**	20,290,000
Closing balances	**140,149,000**	119,718,000
Deposit for future subscriptions	**1,428**	1,055
Total Share Capital	**205,528,428**	180,878,055
STATUTORY RESERVES *(Note 15)*		
Opening balances	**24,655,285**	16,797,797
Share in net income during the year	**11,374,003**	9,051,612
Net transactions during the year	**2,710,324**	(1,194,124)
Closing balances	**38,739,612**	24,655,285
	₱244,268,040	₱205,533,340

See Notes to Consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

CLIMBS Life and General Insurance Cooperative and Subsidiary

(With Comparative Figures for the Year Ended December 31, 2010)

Year Ended December 31	**2011**	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**₱40,582,315**	₱33,723,105
Add (deduct) adjustments for:		
Depreciation during the year	**4,934,760**	3,099,735
Provision for retirement benfits	**2,963,400**	214,059
Investments income earned	**(23,793,408)**	(28,530,152)
Operating income before changes in working capital	**24,687,067**	8,506,748
Decrease (increase) in:		
Insurance receivable	**(17,567,348)**	(106,251)
Loans and receivable	**1,334,653**	(1,407,861)
Other assets	**(1,292,488)**	(8,184,198)
Increase (decrease) in:		
Increase in insurance contract liabilities	**118,126,311**	60,195,655
Insurance payables	**94,139,764**	45,716,185
Trade and other payables	**1,525,477**	10,212,678
Interest on share capital and patronage refund payable	**1,928,123**	6,905,057
Net Cash Provided from Operating Activities	**222,881,559**	121,838,013
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional capital subscriptions received – net of withdrawals	**24,650,373**	27,016,719
Increase in statutory reserves	**14,084,327**	7,857,488
Increase in retirement benefit obligation – net of plan assets	**(2,963,400)**	(3,830,428)
Distribution of profit for the year	**(40,582,315)**	(33,723,105)
Total Cash Provided from Financing Activities	**(4,811,015)**	(2,6,79,326)
CASH FLOWS FOR INVESTING ACTIVITIES		
Investments income earned	**23,793,408**	28,530,152
Acquisition (disposals) of:		
Held-to-maturity investments	**(225,848,335)**	(12,034,782)
Available-for-sale financial assets	**18,544,152**	(45,316,672)
Additions to property and equipment and investment property	**(14,568,108)**	(27,443,400)
Total Cash Used for Investing Activities	**(198,078,884)**	(56,264,702)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**19,661,660**	62,893,985
OPENING CASH AND CASH EQUIVALENTS	**185,058,256**	122,164,271
CLOSING CASH AND CASH EQUIVALENTS	**₱205,049,916**	₱185,058,256

See Notes to Consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CLIMBS Life and General Insurance Cooperative and Subsidiary

Note 1
Cooperative Information

The Parent Cooperative
The CLIMBS Life and General Insurance Cooperative (henceforth referred to as the "Parent Cooperative") is a national federation of cooperatives incorporated as a stock cooperative. It was registered with the Cooperative Development Authority (CDA) on March 17, 2004, and obtained license to operate as an insurance company from the Insurance Commission (IC) on April 28, 2004. Pursuant to CDA Memorandum Circular No. 2010-05, Series of 2010, the Group complied with the mandatory filing for the registration of amendment in accordance with the provisions of Republic Act (R.A.) No. 9520, An Act Amending the Cooperative Code of the Philippines to be Known as the "Philippine Cooperative Code of 2008".

The Parent Cooperative is a holder of a Composite Insurance License from the Insurance Commission (IC) obtained on April 21, 2010, effectively granting the Parent Cooperative the authority to operate as a life and general insurance company. The secondary license is renewed yearly and its current license would expire by June 30, 2012.

The Parent Cooperative is engaged in the business of life insurances, mutual benefit services and non-life insurances offering its members and beneficiaries the following products: (1) Coop Life Savings Plan, (2) Coop Loan Protection Plan, (3) Group Renewable Term Life, (4) Group Family Plan, (5) Group Accident, Death, Dismemberment, Disablement Insurance, (6) Group Life and Accident with Fire Insurance, (7) Group Accidental Death, Disablement & Dismemberment Indemnity and Funeral Service Assistance, and (8) Member Year Renewable Accident and Life.

The Parent Cooperative also offers individual life insurances as well as underwrites non-life insurance contracts for all risks, hazards and contingencies to which marine, fire, motor car and other casualty insurances and suretyship as are applicable.

The Subsidiary Cooperative
The Coop Life General Insurance and Financial Services Agency (CLIFSA) (referred to in the succeeding sections as the "Subsidiary Cooperative") is a secondary cooperative that is licensed by the Insurance Commission (IC) as a General Agency. It is a wholly-owned subsidiary of the Parent Cooperative.

The Subsidiary Cooperative is the distribution channel of the Parent Cooperative offering a complete line of financial services through forged strategic business alliances with CCC Insurance Corporation, Alpha Insurance and Malayan Insurance, a non-life insurance companies operating nationwide. It is widening the market scope of the Parent Cooperative by bridging the gap between the cooperative members, other marginalized sectors and their families and the access to customized low-cost social service packages in life and non-life insurance, funeral/memorial services and hospitalization plans. The major product lines of the Parent Cooperative are being marketed and sold by the Subsidiary Cooperative to its clients.

The Subsidiary Cooperative was registered with Cooperative Development Authority (CDA) on April 27, 2010, with Registration No. CGY 3979, and with the Insurance Commission on July 1, 2010 with Registration No. N312693-0.

Area of Operation and Locations of Business Offices
The Parent Cooperative and the Subsidiary Cooperative's area of operation covers the whole of the Philippines. The principal place of business and Head Office of the Parent Cooperative is located CLIMBS Building, Zone 5, Upper Bulua, National Highway, Bulua, Cagayan de Oro City, Philippines. It has area offices in Luzon, Visayas and Mindanao. The Subsidiary Cooperative also holds office on the Second Floor, CLIMBS Building, Zone 5, Upper Bulua, National Highway, Bulua, Cagayan de Oro City, Philippines.

Together, the Parent Cooperative and the Subsidiary Cooperative is referred to in the following section as the "Group".

Tax Exemptions
In accordance with Section 7 of Revenue Memorandum Order No. 76-2010, dated September 27, 2010, the Group enjoys tax exemptions under RA No. 9520, as a cooperative dealing/ transacting business with members only and whose total reserves already exceeded ₱10 million:

a) Income Tax imposed by Title II of the NIRC, as amended;
b) Value-Added Tax (VAT) imposed under Title IV of the NIRC, as amended;
c) Percentage Tax imposed under Title V of the NIRC, as amended;
d) Donor's Tax imposed under Title III of the NIRC, as amended, on donations to duly accredited charitable research and educational institutions and reinvestment to socio-economic projects within the area of operation of the cooperatives;
e) Excise Tax under Title VI of the NIRC, as amended, for which it is directly liable;
f) Documentary Stamp Tax imposed under Title VII of the NIRC, as amended, provided however that the other party to the taxable document/transaction who is not exempt shall be the one directly liable for the tax;
g) Annual Registration Fee of ₱500 under Section 236(B) of the NIRC, as amended, and
h) All taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final income tax on interest income derived from a depository bank under the expanded foreign currency deposit system, and

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Note 2
Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Statement of Compliance
The consolidated financial statements of the Group in 2011 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Preparation
The consolidated financial statements have been prepared under historical cost conventions, except for available-for-sale (AFS) financial assets, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the consolidated financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at statement of financial condition date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial condition date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of Consolidation
The consolidated financial statements include the accounts of CLIMBS Life and General Insurance Cooperative and of Coop Life General Insurance and Financial Services Agency (CLIFSA), its wholly-owned subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant inter-company transactions and balances between and among the Group, including inter-company profits and unrealized profits, have been eliminated in the consolidation. The financial statements of the wholly-owned subsidiary are prepared for the same reporting year as the financial statements of the Parent Cooperative.

Adoption of New and Revised PFRS
The following new and revised PFRS issued by the International Financial Reporting Interpretations Committee (IFRIC) were adopted by the Group effective January 1, 2011:

- PAS 24, *Related Party Disclosures* (Amended) – The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application.

- PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues* (Amended) – The amendment to IAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amended) – The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* – IFRIC 19 is effective for annual periods beginning on or after July 1, 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

- Improvements to PFRS. The omnibus amendments to PFRS issued in May 2011 were issued primarily with a view to removing inconsistencies and clarifying wording.

    - PFRS 3, *Business Combinations*
    - PFRS 7, *Financial Instruments: Disclosures*
    - PAS 1, *Presentation of Financial Statements*
    - PAS 27, *Consolidated and Separate Financial Statements*
    - Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

These new and revised PFRS have no significant impact on the amounts and disclosures in the consolidated financial statements of the Group.

New and Revised PFRS Not Yet Adopted

The following are the new and revised PFRS which are not yet effective for the year ended December 31, 2011 and have not been applied in preparing the consolidated financial statements.

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

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

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

- PAS 27, *Separate Financial Statements (as revised in 2011)* - The amendment is effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- *PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)* - The amendment is effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11 and PFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in j oint ventures in addition to associates.

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

- PFRS 9, *Financial Instruments: Classification and Measurement* – The standard is effective for annual periods beginning on or after January 1, 2013. It reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of financial assets.

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

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

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

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* (IFRIC 15) – The Financial Reporting Standards Council (FRSC) has approved in September 2011 the deferral of the effectivity of IFRIC 15 until the final revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11, Construction Contracts or IAS 18, Revenue and, accordingly, when revenue from the construction should be recognized:

    - An agreement of the construction of real estate is a construction contract within the scope of IAS 11 only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not).
    - If the buyer has the ability, IAS 11 applies
    - If the buyer does not have the ability, IAS 18 applies.

<u>*Cash and Cash Equivalents*</u>
Cash, which are carried in the books at cost, substantially consist of cash on hand and cash in banks and other short-term liquid investments with original maturities of three months or less, from dates of placements and that are known amounts of cash that are subject to insignificant risk of changes in value.

<u>*Financial Assets*</u>
Financial assets include cash and other financial instruments. Financial assets are classified into categories: financial assets at fair value to profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments are required. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

The following are the applicable financial assets of the Group:

- *Held-to-Maturity Investments*
  These are also non-derivative financial assets with fixed or determinable payments and fixed date of maturity. These are mostly investments in treasury bonds with fixed maturity for more than three (3) months to one (1) year or more, and which management has the express intentions of holding to maturity or until these are sold to raise operating capital. These investments are measured at amortized cost using the effective interest method.

  If there is objective evidence that the investment has been impaired, it is measured at present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

- *Available-for-Sale Financial Assets*
  These are non-derivative financial assets that do not qualify for inclusion in any of the foregoing categories. This includes investment in stock of member cooperatives and organizations and is not more than 20% of the member cooperatives' total equity. The Cooperative intends to hold on to the investment for a longer period of time. Also included are investments in bonds which the management has expressly classified as AFS financial assets at the time the investments were initially placed. These investments are recognized initially at fair value plus transaction costs and subsequently carried at fair value.

  Unrealized gains or losses are reported as a separate component of equity until the investment is derecognized or determined to be impaired. 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 income, is transferred from shareholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the statement of income. Reversals of impairment loss on debt securities are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. If there is objective evidence that an impairment loss on loans and receivables 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 discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account. The amount of impairment loss is recognized in the statement of income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash of the underlying net asset base of the investment. Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss are presented in the statement of income under Investment Income. Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Financial Liabilities
Financial liabilities include insurance payables, trade and other payables and interest on capital, patronage and experience refund payable, which are recognized when the Group becomes a party to contractual agreements of the instrument. Insurance payables and accounts payable and accrued expenses are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments. Interest on capital, patronage and experience refund payable to shareholders are recognized as financial liabilities at the end of the year when the amounts are computed based on the pre-determined rates contained in the By-Laws of the Parent Cooperative.

Financial liabilities are derecognized in the statement of financial condition only when the obligations are extinguished either through discharge, cancellation or expiration.

Derecognition of Financial Assets and Liabilities
Financial assets are derecognized when (a) the rights to receive cash flows from the asset have expired; (b) the Group 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 (c) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities are derecognized when the obligations under the liabilities expire, are discharged or are cancelled.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred, if the recognition criteria are met. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows: a) buildings, 25 years; (b) furniture, fixtures and equipment, 3 to 5 years and (b) leasehold rights and improvement, over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income.

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits arising from the renovations will flow to the organization. The carrying values of property and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Investment Property
Investment property is measured initially at acquisition cost. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on the straight-line basis over the estimated useful life of the property, which is 25 years (for the building).

The cost of the investment property comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense when incurred.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

Impairment of Non-financial Assets
The Group's property and equipment, investment property and other assets are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting the market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the previously recognized impairment loss.

Actuarial Policies
Actuarial liabilities and other policy liabilities, including policy benefits payable, are computed by the Consulting Actuary of the Group using actuarial practices generally accepted in the Philippines. Actuarial liabilities and other policy liabilities represent the estimated amounts which, together with estimated future premiums and net investment income, will provide for outstanding claims, estimated future benefits, and expenses on in-force policies.

In calculating actuarial liabilities and other policy liabilities, assumptions must be made about the timing and amount of many events, including death, accident or sickness, investment, inflation, policy termination, expenses, taxes, premiums and commissions. The Group uses best estimate assumptions for expected future experience. Uncertainty is inherent in the process, as no one can accurately predict the future. Some assumptions relate to events that are anticipated to occur many years in the future and are likely to require subsequent revision. Additional provisions are included in the actuarial liabilities to provide for possible adverse deviations from the best estimates. If the assumption is more susceptible to change or if the actuary is less certain about the underlying best estimate assumption, a correspondingly larger provision is included in the actuarial liabilities. In determining these provisions, the Group ensures: (a) when taken one at a time, the provision is reasonable with respect to the underlying best estimate assumption, and the extent of uncertainty present in making that assumption, and (b) in total, the cumulative effect of all provisions is reasonable with respect to the total actuarial liabilities. With the passage of time and resulting reduction in estimation risk, the provisions are released into income. The best estimate assumptions and margins for adverse deviations are reviewed annually and revisions are made where deemed necessary and prudent.

Recording of Claims from Policyholders
Claims incurred comprise settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the year, whether reported or not.

Share Capital
Share capital is determined using the nominal value of shares that have been issued.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets include balances recoverable from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably.

The impairment loss is recorded in the statement of income. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and that the revenue can be measured reliably. The following specific recognition criteria must be met before revenue is recognized:

(1) *Premiums – Life*
Insurance premiums are recorded as income as these are collected, usually at the policy anniversary date. Accrual of uncollected premiums is made at the end of the year if the grace period is still in effect. Single premiums, however, are amortized over the term of the policy – these are recorded as income each policy anniversary date. Premium income is also deducted by the amount of premiums on insurance business ceded;

(2) *Premiums – Non-Life*
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting dates are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the consolidated statement of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at reporting dates are accounted for as Deferred reinsurance premiums and shown as part of reinsurance assets in the consolidated statement of financial position. The net changes in these accounts between the end of reporting periods are recognized in the consolidated statement of income.

(3) *Commissions*
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relate to the unexpired periods of the policies at the end of reporting period are accounted for as Deferred reinsurance commissions and presented in the liabilities section of the consolidated statement of financial position.

(4) *Interest Income*
For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.

(5) *Dividend income*
Dividend income is recognized when the right to receive payment is established.

(6) *Rental income*
Rental income from investment property is recognized on a straight-line basis over the term of the lease.

(7) *Benefits and Claims*
Gross benefits and claims consists of benefits and claims paid to policyholders and changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Share in liabilities for claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The share in liabilities for claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

(8) *Expenses*
General and administrative expense, other investment expense and other underwriting expense are recognized as they are incurred.

(9) *Interest Expense*
Interest expense is charged to operations and is calculated using the effective interest method.

Leases
The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangements. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset.

The Group accounts for its eases as follows:

- *Group as Lessee*
  Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statements of financial condition at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the leased liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

- *<u>Group as Lessor</u>*
  Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

  Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the statement of income on a straight-line basis over the lease term.

<u>Employee Benefits</u>
The Group employees are provided with the following benefits:

- *<u>Retirement Benefit Obligation</u>*
  Pension benefits are provided to employees through a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

- *<u>Termination Benefits</u>*
  Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

- *<u>Compensated Absences</u>*
  Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The amounts recognized are included in Trade and Other Payables account in the statement of financial condition at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Earnings Per Common Share, or EPS
Basic EPS is calculated by dividing net income or loss for the period attributable to common shareholders (net income or loss adjusted for dividends on preferred shares) by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividend declarations.

Distribution of Net Income
In accordance with the provisions of the Philippine Group Code of 2008, the Group distributes its net savings in the following manner: (a) At least ten percent (10%) of the net surplus is set-aside for a reserve fund intended for the stability of the Group to meet net losses from operations; (b) Not more than ten percent (10%) of the yearly net surplus is set-aside for an education and training fund to be utilized by the Group for the education and training of its officers and members, with half of the amount to be presented as a "Reserves" account, while the other half, to be remitted to certain cooperative apex organizations; (c) Not more than ten percent (10%) of the yearly net surplus is set-aside as an Optional Fund for Land and Building Fund (LBF) and Community Development, and (d) The remaining net surplus shall be made available to members in the form of interest on share capital and patronage refund.

Provisions and Contingent Liabilities
Provisions, if any, are recognized when the Group has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision.

Provisions are reviewed at each statement of financial condition date and adjusted to reflect the current best estimate. In those cases where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements. No contingent liabilities have been incurred during the year.

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

Note 3
Significant Accounting Judgment and Estimates

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

The following critical accounting estimates and judgments may be applicable, among many other possible areas not presented in the Group's consolidated financial statements:

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

Allowance for Impairment of Insurance Receivable and Loans and Receivables
Allowance is made for specific accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience, and historical loss experience. The recorded losses for any period would therefore differ based on the judgments and estimates made.

Estimating Useful Lives of Property and Equipment
The Group reviews annually the estimated useful lives of its property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Impairment of Non-financial Assets
The Group assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Group's financial statements.

Pension and Other Employee Benefits
The determination of the Group's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increases. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect retirement obligations.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4
Cash and Cash Equivalents

This consists of the following:

December 31	**2011**	2010
Cash with commercial banks and trust companies	**₱84,555,390**	₱59,277,934
Cash with thrift banks, rural banks and cooperatives	**73,887,806**	44,806,378
Short-term deposits with commercial banks and trust companies	**45,888,086**	80,680,588
Petty cash and revolving funds	**718,634**	293,356
	₱205,049,916	₱185,058,256

Time deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Cooperative. Time deposits (in pesos) earn interest with rates ranging from 2.80% to 8.00%. Cash in banks generally earn interest at rates based on daily bank deposit rates.

Note 5
Insurance Receivable

This account consists of the following:

December 31	**2011**	2010
Premiums receivable – net	**₱18,374,388**	₱1,890,101
Amounts recoverable from accepting companies	**936,484**	71,000
Automatic contribution loans of MAS members	**353,168**	158,288
Policy loans	**126,924**	104,227
	₱19,790,964	₱2,223,616

The amount of automatic contribution loans of MAS members is chargeable against the equity value of the defaulting members' certificate, free of interest and other charges. At the end of the year, management considers the accounts active and unimpaired.

Note 6
Held-to-Maturity Investments

These consist of the following:

December 31	**2011**	2010
Government bonds	**₱198,246,518**	₱75,024,306
Trust accounts	**104,936,140**	157,527
Commercial papers	**–**	2,152,490
	₱303,182,658	₱77,334,323

Government bonds consist of 10-year peso-denominated bonds issued by the Philippine Government which bears interest rates ranging from 5.50% to 10.625% per annum maturing on various dates from 2010 to 2016. Commercial papers include time deposits with commercial and cooperative rural banks earning interest ranging from 6 % to 8.5% per annum. The commercial papers matured in 2011.

The following presents the fair values of investments in bonds by contractual maturity dates:

December 31	**2011**	2010
Due within one year	**₱6,079,773**	₱–
Due after one year through five years	**80,782,743**	17,550,706
Due after five years through ten years	**216,320,142**	59,783,617
	₱303,182,658	₱77,334,323

The carrying amounts of the investments are determined to approximate their fair values as at December 31, 2011 and 2010.

Note 7
Available-for-Sale Financial Assets

These consist of the following:

December 31	**2011**	2010
Equity in managed funds	**₱104,770,837**	₱126,673,123
Equity securities (common shares)	**36,529,140**	33,171,006
	₱141,299,977	₱159,844,129

The equity in managed funds represents the fair values of investments administered by a bank. This consists substantially of investments in bonds and other debt instruments, short-term equity investments and special savings deposits, net of accrued trust fees payable.

The investment in security equities represents equity investments in member cooperatives and organizations, accounted in the books at cost, being less than 20% of the investees' total equity. The carrying amounts of security equities are determined to approximate their fair values as at December 31, 2011 and 2010.

Note 8
Loans and Receivables

The loans and receivables consist of the following:

December 31	**2011**	2010
Accounts receivable – others	**₱2,255,485**	₱4,484,620
Advances to officers and employees	**1,844,688**	950,206
	₱4,100,173	₱5,434,826

Management believes that the foregoing accounts are not impaired as at December 31, 2011.

Note 9
Investment Property

The investment property includes a piece of land with two-storey building located along Tiano and Pacana Streets in Cagayan de Oro City, which are being leased out to business establishments since 2006. Rental incomes of ₱1,132,268 and ₱815,842 were recognized in the books of 2011 and 2010, respectively.

The details of this account are follows:

December 31	**2011**	2010
Land	**₱4,446,000**	₱4,446,000
Buildings and improvement	**4,542,149**	4,542,149
	8,988,149	8,988,149
Less accumulated depreciation	**1,797,202**	1,567,808
	₱7,190,947	₱7,420,341

Note 10
Property and Equipment – At Cost

This consists of the following:

December 31	**2011**	2010
Land and improvements	**₱6,469,030**	₱3,753,168
Buildings and improvements	**30,218,229**	6,475,254
Service vehicles	**8,789,085**	7,653,588
Furniture, fixtures and office equipment	**12,947,368**	10,621,564
Construction in progress	**5,886,401**	22,637,080
	64,310,113	51,140,654
Less accumulated depreciation	**16,326,568**	13,019,852
	₱47,983,545	₱38,120,802

The reconciliation of the movements of the accounts in 2011 follows:

December 31, 2011	*Land*	*Buildings & Improvts*	*Service Vehicles*	*Furn., Fixtures & Equipment*	*Construction in Progress*	***Total***
Cost						
Opening balances,	₱3,753,168	₱6,475,254	₱7,653,588	₱10,521,564	₱22,637,090	**₱51,040,664**
Additions	2,715,862	23,742,975	2,567,497	2,547,199	(16,750,689)	**14,822,844**
Disposals/derecognition			(1,432,000)	(121,395)		**(1,553,395)**
Closing balances	6,469,030	30,218,229	8,789,085	12,947,368	5,886,401	**64,310,113**
Accumulated Depreciation						
Opening balances,		2,148,608	4,169,424	6,701,820		**13,019,852**
Additions		1,731,889	1,483,714	1,489,763		**4,705,366**
Disposals/derecognition			(1,394,100)	(4,550)		**(1,398,650)**
Closing balances		3,880,497	4,259,038	8,187,033		**16,326,568**
Net Book Value 2011	₱6,469,030	₱26,337,732	₱4,530,047	₱7,760,335	₱5,886,401	**₱47,983,545**
December 31, 2010						
Cost						
Opening balances,	₱3,753,168	₱4,896,205	₱6,573,688	₱7,835,281	₱674,913	**₱23,733,255**
Additions		1,579,049	1,079,900	2,786,283	21,962,167	**27,407,399**
Disposals/derecognition						**–**
Closing balances	3,753,168	6,475,254	7,653,588	10,621,564	22,637,080	**51,140,654**
Accumulated Depreciation						
Opening balances,		1,843,864	2,901,772	5,415,958		**10,161,594**
Additions		304,744	1,267,652	1,285,862		**2,858,258**
Disposals/derecognition						**–**
Closing balances		2,148,608	4,169,424	6,701,820		**13,019,852**
Net Book Value 2011	₱3,753,168	₱4,326,646	₱3,484,164	₱3,919,744	₱22,637,080	**₱38,120,802**

Note 11
Other Assets

This consists of the following assets which are stated at the lower of cost or net realizable value:

December 31	**2011**	2010
Deposits and placements with banks under receivership	**₱4,301,901**	₱2,448,595
Net pension asset *(see below.)*	**4,092,129**	6,169,571
Refundable deposits	**702,723**	200,768
Others	**1,610,961**	596,292
	₱10,707,714	₱9,415,226

The deposits and placements with banks under receivership have been processed for insurance claims from the PDIC. Management started to amortize to expense in 2011 some of the losses that it anticipates to incur. A total of ₱533,545 was charged to expense during the year.

The other items substantially include the computerization costs amortized by the Group over three (3) years. Amortization costs incurred during the year amounted ₱572,460.

Net Pension Asset
The Group has a qualified, noncontributory retirement plan covering substantially all of its employees. The Plan requires contributions to be made to administered funds. The plan is administered by a local bank as trustee.

The net pension asset is computed as follows:

December 31	**2011**	2010
Fair value of plan asset	**₱10,619,532**	₱10,000,000
Present value of defined benefit obligation	**(6,527,403)**	(3,830,429)
Net Pension Asset	**₱4,092,129**	₱6,169,571

The principal actuarial assumptions used in determining plan assets and obligations include salary rate increase of 5%, discount rate of 7.135% and expected return on plan assets of 5%.

The movement in the pension plan assets was accounted as follows:

December 31	**2011**	2010
Opening balance	**₱10,000,000**	₱–
Contributions during the year	**646,894**	10,000,000
Actuarial return	**619,532**	–
Benefits paid	**(646,894)**	–
	₱10,619,532	₱10,000,000

The reconciliation of the fair value of plan assets follows:

December 31	**2011**	2010
Balance at beginning of year	**₱10,000,000**	₱–
Expected return on plan assets	**500,000**	10,000,000
Actuarial gain	**119,532**	–
	₱10,619,532	₱10,000,000

The pension plan assets were distributed as follows:

December 31	**2011**	2010
Cash and cash equivalents	**₱3,845,840**	₱10,000,000
AFS financial assets	**6,721,229**	–
Accounts receivable	**61,987**	–
Accrued trust fees payable	**(9,524)**	–
	₱10,619,532	₱10,000,000

The accounting of the movements of the present value of pension benefit obligation follows:

December 31	**2011**	2010
Opening balance	**₱3,830,429**	₱3,616,369
Current service cost	**492,891**	492,891
Interest cost	**273,301**	258,976
Additional expense	**2,697,208**	–
Benefits paid during the year	**(646,894)**	–
Actuarial gains	**(119,532)**	–
Transition gain	**–**	(537,807)
Present Value of Pension Benefit Obligation	**₱6,527,403**	₱3,830,429

The net benefit expense included in salaries, wages and employees' benefits is accounted as follows:

Year Ended December 31	**2011**	2010
Current service cost	**₱492,981**	₱492,981
Interest cost	**273,295**	258,976
Expected return on plan assets	**(500,000)**	–
Additional expense	**2,697,124**	–
Transition gain	**–**	(537,897)
Net Pension Expense	**₱2,963,400**	₱214,060

Note 12
Actuarial Liabilities and Other Policy Liabilities

The actuarial liabilities and other policy liabilities consist of the following:

December 31	**2011**	2010
Aggregate reserves for life policies	**₱259,370,852**	₱157,108,128
Reserved for unearned premiums	**19,675,265**	3,811,678
Total	**279,046,117**	160,919,806
Insurance payables	**169,814,746**	75,674,992
	₱448,860,863	₱236,594,798

The amount of insurance contract liabilities (legal policy reserves) and other actuarial items in the financial statements for the year ended December 31, 2011, have been computed and certified by the Consulting Actuary of the Cooperative to be in accordance with commonly accepted actuarial standards consistently applied and that the legal policy reserves and other actuarial items are fairly stated in accordance with sound actuarial principles.

Note 13
Trade and Other Payables

This account consists of the following breakdowns:

December 31	**2011**	2010
Accounts payable and accrued expenses	**₱ 16,764,669**	₱18,200,945
Rental deposits	**204,000**	168,000
CETF payable	**–**	1,712,012
	₱16,968,669	₱20,080,957

The CETF payable has been transferred to the Cooperative Education and Training Fund of the Parent Cooperative, who is itself a secondary cooperative. It will be used to promote the training needs of members.

Note 14
Share Capital

This consists of the following breakdowns:

December 31	**2011**	2010
Preferred Shares – ₱1,000 Par Value		
Authorized – 200,000 shares		
Issued – 65,378 shares in 2011 and 61,159 shares in 2010	**₱65,378,000**	₱61,159,000
Common Shares – ₱1,000 Par Value		
Authorized – 500,000 shares		
Issued –140,149 shares in 2011 and 119,718 shares in 2010	**140,149,000**	119,718,000
Deposits for future subscriptions	**1,428**	1,055
	₱205,528,428	₱180,878,055

Note 15
Statutory Reserves

The statutory reserves of the Cooperative consist of the following:

December 31	**2011**	2010
General reserve fund	**₱17,460,387**	₱11,343,615
Cooperative education and training fund	**8,816,575**	3,856,560
Optional (Land and Building fund)	**10,855,256**	7,688,627
Social Development Fund	**1,607,394**	1,766,483
	₱38,739,612	₱24,655,285

The natures of the reserves are in accordance with the Cooperative By-Laws, as follows:

General Reserve Fund (GRF)
GRF is intended for the stability of the Group and to meet net losses in its operations and normally receives 10% allocation every year from the net profit of the Group. The General Assembly may decrease the amount allocated to GRF when the Fund already exceeds the share capital. Such excess may be used at anytime, upon the resolution of the General Assembly, for any project that would expand the operations of the Group. The Fund shall not be utilized for investments other than those allowed by the Cooperative Code. Any sums recovered on items previously charged to the Fund shall be credited back to the Fund. Upon the dissolution of the Group, the General Reserve Fund shall not be distributed to members. The General Assembly may resolve to establish a usufructuary fund for the benefit of any federation or union to which the Group is affiliated, and to donate, contribute, or otherwise dispose of the amount for the benefit of the community where the Group operates. If the General Assembly cannot decide upon the disposal of the Fund, the same shall go to the federation or union to which the Group is affiliated.

Cooperative Education and Training Fund (CETF)
CETF is intended for the education and training and other purposes of the Cooperative and receives 10% allocation from the net profit of the Cooperative every year. Half of the allocation to the Fund is remitted to the CETF of the federation or union to which the Cooperative is affiliated. Upon the dissolution of the Cooperative, the unspent balance of the Fund shall be credited to the CETF of the federation or union to which the Cooperative is affiliated.

Optional Fund
Optional Fund is intended either for land and building, community development or any other necessary fund. The fund receives 10% of allocation from the annual profit of the Cooperative. For the 2011 allocation, the Board of Directors approved to reduce the allocation to only 5.03%

Cooperative Development Fund (CDF)
CDF is set aside for projects or activities that will benefit the community where the Cooperative operates and receives annual allocation of 3% of net profit.

The movements of the accounts during 2011 and 2010 are as follows:

December 31, 2011	*Beg. Bal.*	*Distribution of 2011 income*	*Collections*	*2011 Disbursements*	***End Bal.***
General Reserve Fund	₱11,343,615	₱4,058,232	₱2,058,540		**₱17,460,387**
Coop. Education & Training Fund	3,856,560	4,058,231	901,784		**8,816,575**
Optional fund (Land and Bldg.)	7,688,627	2,040,071	1,126,558		**10,855,256**
Social Development Fund	1,766,483	1,217,469	(1,376,558)		**1,607,394**
	₱24,655,285	₱11,374,003	₱2,710,324		**₱38,739,612**

December 31, 2010	*Beg. Bal.*	*Distribution of 2010 income*	*Collections*	*2010 Disbursements*	***End Bal.***
General Reserve Fund	₱7,289,435	₱4,536,276		₱482,096	**₱11,343,615**
Coop. Education & Training Fund	2,856,576	1,712,012		712,028	**3,856,560**
Optional fund	5,912,510	1,776,117			**7,688,627**
Social Development Fund	739,276	1,027,207			**1,766,483**
	₱16,797,797	₱9,051,612		₱1,194,124	**₱24,655,285**

Note 16
Segmental Results of Operations

The Group's segmental income and expenses in 2011 are as follows:

Year Ended December 31	*Life*	*Non-Life*	*Agency*	***Total***
Revenue				
Premiums on insurance contracts – net	₱523,977,856	₱44,182,723		**₱568,160,579**
Investment income	22,280,064	1,302,134	₱211,210	**23,793,408**
Commissions/ underwriting income	–	949,211	13,364,093	**14,313,304**
Other income	2,345,149	15,643	22,275	**2,383,067**
	548,603,069	46,449,711	13,597,578	**608,650,358**
Expenses				
Net benefits paid	335,935,413	22,754,795		**358,690,208**
Collection costs	130,159,665	14,886,443	2,746,823	**147,792,931**
General and administrative expenses	27,420,509	1,912,531	3,493,675	**32,826,715**
Salaries, wages and employees benefits	18,278,830	3,248,098	2,296,500	**23,823,428**
Depreciation	4,093,387	159,439	681,934	**4,934,760**
	515,887,804	42,961,307	9,218,932	**568,068,042**
Profit for the Year	₱32,715,265	₱3,488,405	₱4,378,646	**₱40,582,316**

The difference between total revenue and expenses as presented in the segmented results of 2011 operations against the total revenue presented in the consolidated statement of income represents the inter-unit transactions that were eliminated in the consolidation process.

Note 17
Details of General and Administrative Expenses

Year Ended December 31	**2011**	2010
General support services	**₱11,643,439**	₱8,748,213
Travel and transportation	**5,029,033**	4,872,722
Promotions and networking	**4,446,072**	3,518,463
Meetings, conferences and general assembly	**3,126,221**	2,720,188
Materials and supplies	**1,706,982**	1,537,881
Communications	**1,587,177**	1,314,714
Rent	**1,270,964**	1,095,119
Light and power	**1,129,012**	905,687
Repairs and maintenance	**821,645**	845,944
Amortization of computerization costs *(Note 11)*	**572,460**	–
Amortization of losses on deposits *(Note 11)*	**533,545**	–
License fees and membership dues	**399,915**	497,480
Insurance	**155,952**	229,686
Interest and financial charges	**30,439**	34,096
Miscellaneous	**373,859**	654,768
	₱32,826,715	₱26,974,961

Note 18
Details of Salaries, Wages and Officers' and Employees' Benefits

Year Ended December 31	**2011**	2010
Salaries and wages	**₱17,337,767**	₱11,950,935
Uniforms and other employees' benefits	**2,244,175**	2,020,335
SSS, PHIC and HDMF counterpart contributions	**1,278,086**	1,238,446
Retirement contributions	**2,963,400**	214,059
	₱23,823,428	₱15,423,775

Note 19
Distribution of Net Income

In accordance with its By-laws, the Cooperative's net incomes have been distributed as follows:

Year Ended December 31	**2011**	2010
General reserve fund (10%)	**₱4,058,232**	₱3,145,960
Coop. Education and training fund (10%)	**4,058,231**	3,145,960
Land and building fund and community development fund (5.03%)	**2,040,071**	1,581,473
Community development fund (3%)	**1,217,469**	943,788
Interest on capital, experience and patronage refund (71.97%)	**29,208,312**	22,642,424
	₱40,582,315	₱31,459,605

The Executive Committee of the Board of Directors of the Cooperative approved to distribute the 2011 net income after providing for statutory reserves, as follows:

Year Ended December 31	**2011**	**%**	2010	%
Dividends for common shares	**₱12,501,972**	**42.80**	₱9,921,467	43.81
Dividends for preferred shares	**3,816,340**	**13.07**	3,520,956	15.55
Patronage refund	**5,790,000**	**19.82**	3,200,000	14.14
Experience refund	**7,100,000**	**24.31**	6,000,000	26.50
	₱29,208,312	**100.00**	₱22,642,424	100.00

The experience refund is given to members as additional incentives to be distributed as follows: 80% to be distributed based on net premiums contributed by the members and 20% to be distributed based on common shareholdings.

Note 20
Earnings Per Common Share

Year Ended December 31	**2011**	2010
Net income allotted for interest on capital	**₱12,501,972**	₱9,921,467
Weighted Average Number of Common Shares	**131,856**	111,604
Earnings Per Common Share	**₱94.82**	₱88.90

Note 21
Related Party Transactions

In the ordinary course of trade or business, the Group has transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The significant related party transactions are summarized below:

a. In the ordinary course of business, the Group accepts insurance business from various cooperatives that are also shareholders of the Group. The bulk of the insurance revenue of the Group comes from these shareholders and their members. These cooperatives earn commissions from the insurance accepted and also share in the net income of the Group at the end of the year.

b. The Group also accepts reinsurance business from certain mutual benefit associations (MBAs), the founding entities of which are also shareholders of the Group.

None of the transactions with related parties incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

The key management compensation consists of the following:

YeaR Ended December 31	**2011**	2010
Salaries and allowances	**₱3,698,820**	₱2,118,120
Other benefits	**2,017,708**	2,906,604
	₱5,716,528	₱5,024,724

Note 22
Risk Management Objectives and Policies

The Group is exposed to a variety of risks in performing its activities. Its risk management is coordinated by its Board of Directors. The Group is principally exposed to insurance risk, the risk that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. Management addresses this issue by ceding portion of the risks to a reinsurer. Although the Group has reinsurance agreements with Philippine Prudential Life Insurance, Inc., it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group is also exposed to a variety of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation. To mitigate the effects of financial risks, the Group does not actively engage in the trading of financial assets. It does not also write options. It has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. It has invested most of its cash in investments and deposits with fixed interest rates. Its exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date.

As at December 31, 2011, the Group's financial assets are composed of the following:

December 31, 2011	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash and cash equivalents	₱205,049,916		**₱205,049,916**
Insurance receivables	19,790,964		**19,790,964**
Held-to-maturity investments	303,182,658		**303,182,658**
Available-for-sale financial assets	141,299,977		**141,299,977**
Loans and receivable	4,100,173		**4,100,173**
	₱673,423,688	₱–	**₱673,423,688**
	100.00%	–	**100.00%**

The Group is likewise exposed to liquidity or funding risk, the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing to repay a contractual obligation; or insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. Management addresses this issue by maintaining its available cash resources in demand deposits or time deposits that can be pre-terminated anytime and in such volume as to ensure that it meets its obligations on time.

The maturity profile of the Group's financial liabilities is as follows:

December 31, 2011	*Due in One Year*	*Due Over One Year*	***Total***
Insurance payables	₱169,814,756		**₱169,814,756**
Insurance contract liabilities	279,046,117		**279,046,117**
Trade and other payables	20,802,604		**20,802,604**
Interest on share capital and refunds payable	25,374,377		**25,374,377**
	₱495,037,854		**₱495,037,854**
	100.00%		**100.00%**

Note 23
<u>Capital Management</u>

The Group maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The Group's Board of Directors reviews regularly its capital structure and considers the cost of capital and the risks associated with each class of capital. The level of capital maintained is usually higher than the minimum capital requirements set by the Insurance Commission (IC) and the amount computed under the Risk-Based Capital (RBC) Model. The Group fully complied with the externally imposed capital requirements during the reported financial periods. These are the margin of solvency (MOS), fixed capitalization requirement and RBC requirements.

<u>Margin of Solvency</u>
Under the Insurance Code, an insurance company doing business in the Philippines shall maintain at all times a margin of solvency (MOS) equal to ₱500,000 or 10% of the total amount of its net premiums written during the preceding year, whichever is higher. The MOS shall be the excess of the value of the admitted assets (as defined under the Insurance Code), exclusive of its paid-up capital over the amounts of its liabilities, unearned premiums and reinsurance reserves. The final amount of the MOS can be determined only after the accounts of the Group have been examined by the IC especially as to admitted or non-admitted assets as defined in the Insurance Code.

Fixed Capitalization Requirements
In September 2006, the Department of Finance issued Order 27-06, increasing the capitalization requirements for life, non-life and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the Insurance Commission. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

As of December 31, 2011, the required minimum statutory net worth and minimum paid-up capital for the Group, being a wholly Filipino-owned domestic insurance company, is ₱350 million and ₱175 million, respectively. The Insurance Commission (IC) issued its Circular Letter No. 26-2008 deferring the 2007 requirements of IMC No. 10-2006 for a year that effectively made the 2007 requirements the basis for 2008, and therefore, making 2010 as the basis for 2011.

The Group's minimum paid-up capital and statutory net worth at the end of 2001 complied with the minimum required by the IC.

RBC Requirements
In October 2006, the Insurance Commission issued IMC No. 7-2006 adopting the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum Risk-Based Capital (RBC) ratio of 100% and not to fail the trend test. Failure to meet with the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels. The Group's RBC ratio has been determined to comply with this requirement.

Consolidated Compliance Framework
In November 2006, the Insurance Commission issued IMC 10-2006, integrating the compliance standards for the fixed capitalization and risk-based capital framework. Under this IMC, all insurers must possess the capitalization required for the year 2006. Likewise, all insurers shall annually comply with the RBC ratio requirements. Subsequent to 2006, the fixed capitalization requirement for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011.

In view of the provisions of Circular Letter No. 26-2008, for the year 2011, the basis of the review shall be the 2010 synopsis, and the Industry RBC Ratio Compliance Rate is 90%, while the RBC Hurdle Rate is 250%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement of the year under review.

Note 24
Commitments and Contingencies

In the normal course of its operations, the Association makes various commitments and incurs certain contingent liabilities which are not reflected in the accompanying financial statements. Management anticipates no material losses, if any, that may arise from these commitments and contingencies.

Note 25
Reclassification and Restatement of 2010 Statement of Financial Position

The presentation of some of the accounts in the 2010 statement of financial position has been reclassified to conform to the presentation of the accounts in 2011, as follows:

a) The insurance receivable presented in 2010 has been reduced by ₱9,372,678, representing deferred premium income originally presented under Trade and Other Payables.

b) The Other Assets has been reduced by ₱3,830,429, representing the present value of pension benefit obligation offset against pension asset presented in 2010 at gross under Trade and Other Payables, but now offset against Net Pension Assets presented in Other Assets.

c) The Statutory Reserves and the Members' Equity of Wholly-Owned Subsidiary have been restated (the latter account eliminated) for the statutory reserves of the Subsidiary Cooperative not consolidated with that of the Parent Cooperative in 2010.

d) The Trade and Other Accounts Payable account has been reduced by ₱11,208,182, from the amount originally reported for the reclassification in a), b) and c) above, including reclassifications on Interest on Capital, Experience and Patronage Refund Payable, which included some amounts unrelated to income distribution during 2010.

The reclassifications did not affect the profit and loss accounts.

Note 26
Events After Reporting Date

There were no events after reporting date that would require disclosures or adjustments on the financial statements of the Association.

Note 27
Approval of Financial Statements

The Group's financial statements as of and for the year ended December 31, 2011, were authorized for issue by management on April 4, 2012.

***(left to right)**: Elmer Elican, Atet Seneca, Roxanne Aliboyog, Blessy Lagang, Grace Soriano, Juan Desamparado, Cherry Rose Macali, Delia Martinez(HR Manager), Kimley Pacunio, Roger Balaga*

***(not in the picture)**: Marcelino Ogsid*

***(left to right)**: Erlwin Mijares, Honey Cielo Castañares, Nancy Ortega(Section Head), Gretchen Babanto, Coke Bernadas*

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(not in the picture): *Janyll Sijo, Santiago Orapa*

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(left to right): *Lutgarda Talipan, Christopher Gabule*

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2nd Row(left to right): *Wilbur Sunugan, Glenn Daomar, Edgardo Demonteverde, Chad Dailo*

(left to right): *Gerald Cabillo, Virgilio Cumba, Cyfred Odarve (Department Head), Patrick Doldolea, Jade Anthony Pilongo*

1st Row(left to right): Roque Samuya, Joy Fe Cabiso, Ruby Jean Bentuzal, Ielyn Asay, Louie Jopson, Reagan Atlao
2nd Row(left to right): Emannuel Naelga, Ulysses Zulueya(Underwriting Manager), Sanie Dosdos(Division Manager), Chared Naliponguit, Junevic Item

(left to right): Katherine Balite, Gina Ralloma, Evangeline, Jocelyn Duka, Alaiza Daine Alido, Gerry Mendoza, Michael Ebo, Henry Lopez(General Manager), Ryan Dale Maquidato, Karlo Alcordo, Gerry Merto

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Charlette Joy Abug
Del Bellen(Regional Marketing Manager)
Roy Miclat(Life Division Manager)
France Marie Mirales
Ruby Shayne Gabriel(Business Development Officer)

seated(left to right):
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Lorina Gabato(Business Development Officer)
Jeannie Anne Mantilla
standing(left to right):
Eric Clamonte
Mark Mobe
Gilbert Padayogdong

(left to right):
Edgardo Apoya(Regional Marketing Manager)
Lynette Bantayan
Margie Novela
Rowena Abella (General Agency Manager)
Analene Bollo (General Agency Manager)
John Diona

2011 Cooperative Month held at the Misamis Oriental Capitol Grounds


Personnel of CLIMBS Area Offices having their training at the Head Office supervised by MIS Department personnel


2011 Rockstar Christmas Party


Team building activity attended by CLIMBS personnel nationwide

Training on Professionalism and Customer Service held at Philtown Hotel Cagayan de Oro City


Operation: Brigada (After the Sendong Tragedy)


Board Protocol and Good Governance Seminar


CLIMBS Institute of Financial Literacy
Managing Liquid Funds In Uncertain Times

Directory of Offices and Branches

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Website: http://www.munichre.com
GIZ (GTZ)
Website: http://www.giz.de
Asia Oceana Association
Website: http://www.aoa-icmif.org
International Cooperative Mutual Insurance Federation
Website: http://www.icmif.org
National Confederation of Cooperatives(NATCCO)
Website: http://www.natcco.coop
Philippine Prudential Life Insurance
Website: http://www.philprudentiallife.com
Malayan Insurance
Website: http://www.malayan.com
Alpha Insurance & Surety Company, Inc.
Website: http://www.alphainsurance.com.ph

A MEMBER OF
Philippine Life Insurance Association, Inc.
Website: http://www.plia.org.ph
Philippine Chamber of Commerce
Website: http://www.philippinechamber.com
Philippine Insurer & Reinsurers Association
Website: http://www.pirainc.org
People Management Association of the Philippines
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Designed by: MIS Department