

# CLIMBS Life & General Insurance Cooperative

*"The Grassroot Insurance"*



***Empowering the cooperative and its members  
in achieving financial freedom***

**43<sup>rd</sup> Annual  
General  
Assembly**

Waterfront Hotel and Casino  
April 24-25, 2015  
Salinas Drive, Lahug, Cebu City

Annual Report  
**2014**



# OUR NEW VISION-MISSION STATEMENT

## Core Purpose

- CLIMBS pursue the economic upliftment of its members nationwide, through insurance
- We were born to provide affordable insurance for the many small people in the grassroots countryside, the marginalized poor and the not-so-poor, through their cooperatives. We are reaching out to areas which big insurance firms are not inclined to visit.
- The insurance protection we provide is meant to be multi-fold in aspects: life, non-life, pre-need, etc.
- Through grassroots insurance, we were also envisioned to make the financial investments suited to our members' needs and the cooperative movement.

## Core Values

We subscribe to the cooperative values and principles espoused by Raiffeisen & Rochdale  
But we have certain values we pay careful attention to:

- service excellence, while reserving for growth
- risk management, especially on members' monies
- environmental protection, amidst climate change
- fairness, transparency, accountability in our governance.

We are particularly sensitive to the fact that our member-investors are also our member- markets.  
And we adjudge accordingly.

## Goals

- As the leading cooperative insurance firm in the country, we are going international, into emerging markets of Asia.
- As the grassroots insurance leader, we seek not only a broader servicing of cooperative members, but also the coverage of NGOs, MFIs, and other people-based development groups.
- As a financial institution, we shall become a group of companies, in partnership with cooperatives, into diverse investments, financial packaging, and community-impact projects.
- As a federation, we are advocating the further development of cooperative thought and the upgrading of management across the entire cooperative movement.
- We will show the country that cooperativism is the best way to generate people-based economic upliftment.

These goals are what make CLIMBS different.

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## About the Cover

The cover shows a plant representing the empowered Cooperatives and their members growing on a pile of gold coins that CLIMBS facilitates by providing access to affordable means of financial products and services towards the attainment of financial freedom.



MALACAÑAN PALACE  
MANILA



## MESSAGE


My warmest greetings to the **CLIMBS Life and General Insurance Cooperative** as you hold **43rd CLIMBS General Assembly**.

History is replete with examples of the power of a united Filipino people. From revolutionizing microfinance and modernizing the agriculture sector, to running crucial utilities, and improving access to healthcare and insurance, we have proven that it is possible to hurdle enormous obstacles by putting our faith in one another and uniting for a common cause. Indeed, it is only by working together that we are able to accomplish great deeds for ourselves and our people.

This is the spirit that moves cooperatives to success: Whether through raising capital, pursuing initiatives, or leading your organization, it is when you work together that you are able to all reach your fullest potential. These values of mutual respect and cooperation have allowed your cooperative to prosper these past 44 years, and it is my hope that you affirm these ideals as you gather for this assembly.

The same call for unity goes out to our nation at this exciting juncture in our history. It is, now more than ever, that we must hold steadfast to defend the gains of our reforms, so that it may form the foundation of a stronger, more resilient, and more inclusive Philippines, one that we will be proud to bequeath to generations to come.

I wish you a productive gathering.

  
BENIGNO S. AQUINO III

MANILA  
April 2015

THE PRESIDENT OF THE PHILIPPINES



Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**  
1071 United Nations Avenue  
**Manila**



## MESSAGE

Very few coops in the country today truly understand and define its products and services, and stick to it. One such people's organization is CLIMBS. While most cooperatives are selling a lot of products and services, hence, the concept of multi-purpose cooperatives, CLIMBS sells only one product line: Insurance.


Since its establishment in 1971, the insurance cooperative understood the need to provide protection to coop members thru insurance. The member- coops in turn supported and patronized CLIMBS, becoming part of its growth, through the years.

It is interesting to note that when CLIMBS first started, the concept of long-term strategic planning was not yet commonly practiced or being applied by many business organizations, more so, cooperatives. . With no formally written vision and mission, much less, strategic direction to guide their board of directors in their early years, the organization just grew organically as they seized every opportunity that came along their way; with leaders and members alike sharing the same coop values; and with them all being united in their goal and approach in achieving their vision, which is, to improve the economic condition of all their members.

CLIMBS today is in an enviable position of catering to a well-defined niche market – the grassroots insurance sector – of which, it is the acknowledged leader-provider. As a composite insurance company, CLIMBS is one of the very few insurance providers in the country that the Insurance Commission has duly licensed to offer both life and non-life insurance products. Through its various innovations, aptly discussed in the book, such as its highly customized product offerings; its shift from the expensive centralized marketing operation to turning their member coops into marketing agents and partners in the Coop Assurance Centers; and trailblazing expansion into fund management and ventures overseas, CLIMBS is able to grow its business in leaps and bounds.

The growth of CLIMBS not only benefits the organization, but all the 2,000 plus member- cooperatives and individual members and their families who buy insurance from CLIMBS. It may thus be said that CLIMBS is one of the few organizations in the country that propagates the new economic and business model of "inclusive growth".

Truly, it is an amazing saga!



**EMMANUEL F. DOOC**  
Insurance Commissioner



## Central Office

827 Aurora Blvd., Service Road, Brgy. Immaculate Conception, 1111 Cubao, Quezon City, Philippines

# MESSAGE



Warm solidarity greetings!

When people bind themselves together to craft their own destiny they manifest the spirit of cooperativism, and this clearly indicates the steadfast commitment and continued dedication of **CLIMBS** to lead in the noble task of advancing the members' welfare who are sustainably leading the cooperative to where and what it is today, which is, the number one Insurance Cooperative in the country.

It is its unfailing service in continuing to expand its capabilities, skills and potentials to develop fully the opportunity of empowering the cooperatives in scaling the heights and gaining headways.

Each of the cooperative members of **CLIMBS** have been successfully built as a strong institution, exemplifying a holistic development approach. For years **CLIMBS** has been an instrument, not only in addressing the economic needs of the members but in advocating societal transformation where people are considered as the number one resource and developing their full human potentials that takes precedence over other priorities.

As you continue to enlarge your horizon, you are responding to the call of being a collectivist-counter culture and showing your firm belief that in cooperativism we can transform a society that is based on the time-honored principles of social justice, meaningful popular participation and sustainable development.

I salute **CLIMBS** for being the transformational leader in restructuring a highly skewed societal order to a just one.

For this remarkable achievement and a feather in the cap of the cooperative movement of the country, we congratulate the Officers, Management and Staff, and the member-cooperatives of **CLIMBS**! God Bless and more power!

  
**ORLANDO R. RAVANERA**  
Chairman



Management System  
ISO 9001:2008



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# BOARD OF DIRECTORS



Judge Esperanza F. Garcia(Ret.)  
Chairperson

Cebu CFI Community Cooperative

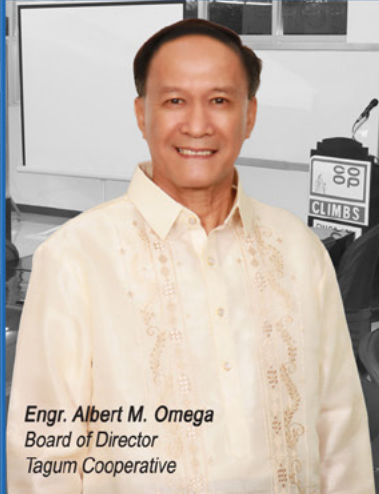


MGen. Gilbert S. Llanto(Ret.)  
Vice-Chairperson

ACDI Multi-Purpose Cooperative



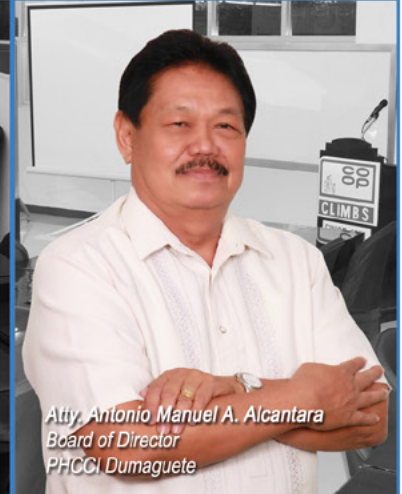
Rene A. Lim  
Board of Director  
Agdao MPC



Engr. Albert M. Omega  
Board of Director  
Tagum Cooperative



Elvira S. Dandan  
Board of Director  
San Dionisio Credit Cooperative



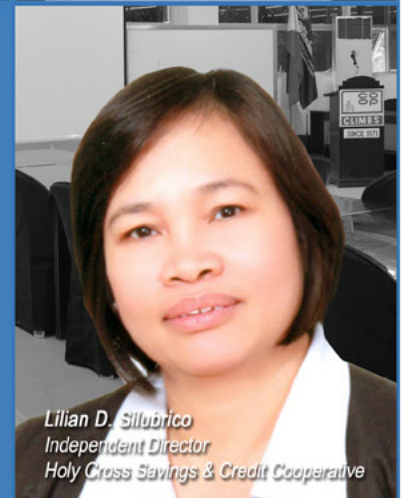
Atty. Antonio Manuel A. Alcantara  
Board of Director  
PHCCI Dumaguete



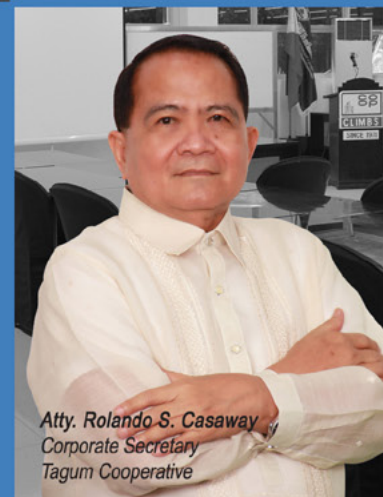
Wilma P. Salas  
Board of Director  
Maripipi MPC



Isidro L. Baldonado  
Board of Director  
Sta. Catalina Credit Cooperative



Lilian D. Silubrico  
Independent Director  
Holy Cross Savings & Credit Cooperative



Atty. Rolando S. Casaway  
Corporate Secretary  
Tagum Cooperative



Blesilda V. Lagang  
BOD Recording Secretary



## ELECTION COMMITTEE

(From Left to Right)  
Victoria T. Pre, Romulo G. Amarado, Luzviminda L. Espita



## AUDIT COMMITTEE

(From Left to Right)  
Engr. Daven P. Gamolo, Nenita R. Malbas, CPA



## ETHICS COMMITTEE

(From Left to Right)  
Eufemio L. Calio, Macario Quevedo, BGen. Juanito J. Malto (Ret.)



## MEDIATION AND CONCILIATION COMMITTEE

(From Left to Right)  
Venchito Bullecer, Alma Jaranilla, Gloria S. Gaviola



## EXECUTIVE MANAGEMENT TEAM



### Executive Management - Top (From Left to Right)

- Fermin L. Gonzales (President & CEO)
- Jorge G. Lumasag, Jr. (EVP & CFO)
- Admarie D. Marcelo, CPA (VP & COO)
- Noel D. Raboy (VP & CMO)
- Raul M. Pregon (AVP Sales Life)
- Jesus Antonio R. Dosdos (AVP Sales Nonlife)

### Executive Management - Bottom (From Left to Right)

- Danilo B. Dollera (Life Division Manager)
- Ulysses P. Zulueta (Nonlife Division Manager & Chief Underwriter)
- Henry M. Lopez (CLIFSA General Manager)

# CHAIRPERSON'S MESSAGE

The year 2014 is another year full of accomplishments!

As a trailblazer, CLIMBS continues to soar as a composite insurance cooperative in the country. I cannot help but be in awe of the efforts and the indomitable spirit of the officers, the executive management team and the staff.

CLIMBS' unquestionable commitment towards the empowerment of the member-owner cooperatives and valuable members in achieving financial freedom is our bottom-line. The latest foray into the fund management is a testimony to an earnest drive of finding channels of service to the cooperatives and its members avail of affordable means of investment schemes. We pour our hearts and minds into every endeavor thus making them a reality.

The provision of dedicated services enhanced the unprecedented growth of CLIMBS which is the backbone of our services to you our dearest stakeholders. The timely response to the urgent relief of cooperatives and their members including their respective families affected by the horrible catastrophes brought about by Typhoon Sendong and Typhoon Pablo in Mindanao, The Bohol Earthquake and Super Typhoon Yolanda in the Visayas sealed the delivery of our promise.

Once again, allow me to express my deepest appreciation and happiness for all that has become of CLIMBS and the blessings we shared as we persistently undertake more developments in the future.

Daghang salamat sa tanan. Uban ug padayon kita sa paglambo sa atong Kooperatiba ug espiritu sa Kooperatibismo!



JUDGE ESPERANZA F. GARCIA (RET.)  
CHAIRPERSON



# PRESIDENT'S MESSAGE

It is another banner year for CLIMBS Life and General Insurance. I am privileged to greet and welcome our members and guests to our 43rd Annual General Assembly.

CLIMBS, once again, has a remarkable year 2014 in spite of the many calamities that struck the Philippines. As we enter 2015, CLIMBS has to do much more in strengthening our three pillars---good governance, financial inclusion and infrastructure investment---to sustain our growth. It is unacceptable that over 75% of cooperative members do not have access to any form of insurance and savings. Much has to be done so that a larger percentage of cooperators would have access to basic financial services.

CLIMBS has been specializing in micro-insurance business: Grassroots Insurance for the last four (4) decades. It is doing very well in its micro-insurance business offering various life and non-life products. We are set to establish the Asset Management and Mutual Fund for our members cooperatives and their members, for them to have access to basic financial products e.g. long term savings for their pension, the education of their children, and many more.

CLIMBS has indeed lived up to its reputation as insurance for the grassroots with a very strong emphasis on social responsibility. We have demonstrated this very well during the times of disasters such as: like Typhoon Sendong, Typhoon Pablo and the Bohol Earthquake. For Super Typhoon Yolanda, we were at the ground zero, 72 hours after the disaster struck. The total paid claims for these events are over Php 250 million, and the biggest is that of Typhoon Yolanda, which is Php 150 million.

Another important support to our business is our CLIMBS Institute for Financial Literacy (CIFL) which is envisioned to spin-off into a cooperative college. CLIMBS believes that education is the key to success, and we are seeking for your enthusiastic support by way of investing in this project.

Without a doubt our story directly reflects our adherence to Good Governance and Management, and the members' unwavering support. May the blessings of God Almighty who is the ultimate source of Power be upon us.

Mabuhay ang CLIMBS at Mabuhay ang Kooperatiba!



**FERMIN L. GONZALES**  
PRESIDENT & CEO

# The Board of Directors and Management Report

## Dear Shareholders:

We sincerely thank you for your continued support and patronage. Since our foundation in 1971, we have grown as an insurance federation with the support of every cooperative-shareholder in the country.

We made a good start in 2014 by working to become a true top-flight community based assurance provider in your region of operations. In that year, we also started building a highly efficient and robust information management system. With the conclusion of our 2010-2014 strategic plans, we crafted our five-year strategic plan for 2015-2019 that was facilitated by VRV Management Consultants. We also started building strong human resources through job evaluation, performance management system and management training programs.

We reported in 2013 that CLIMBS created the CLIMBS Assistance Center a day after Typhoon Yolanda or Typhoon Haiyan as it is known internationally terribly devastated Tacloban and neighboring areas on November 8, 2013.

We hope to see that the government's inclusive growth strategy will work when our country's poverty incidence declined by 3 percentage points from 27.9% in 2012 to 24.9% in 2013, lifting 2.5 million Filipinos out of poverty. The government has shifted efforts from relief to reconstruction in areas affected by Typhoon Yolanda (Source: The World Bank Philippine Economy Update August 2014 edition.)

Natural disasters occur frequently in our country. We continue to show our growing concern over the impact of climate change by understanding and imparting to you the importance of resiliency and protection.

Moving ahead, we will work to build up our operating base and management resources. We have initiated the formation of CLIMBS Equity Mutual Fund Corporation (CLIMBS EMFC) and the CLIMBS Fund Management and Advisory Corporation (CLIMBS FMAC).

Through CLIMBS EMFC and FMAC, wealth management expertise will be available to the grassroots through you as channels.

We tapped two notable consultants in the industry through the Personal Finance Advisers Philippines Corporation (PFA) namely, Mr. Efren L. Cruz, and Mr. Marvin V. Fausto. Mr. Cruz is the Chairperson and CEO of the PFA, was PFA president for two terms and has over 30 years experience in the financial sector and has over 18 years' experience in managing mutual funds. Mr. Marvin V. Fausto has over 30 years' experience in fund management. He used to be the Chief Investment Officer of Banco de Oro (BDO) and has

managed over Php 780 billion bank assets. He is also one of the consultants of the PFA.

## DEVELOPMENTS

### 5-Year Strategic Plan

The Board and Management convened jointly on October 27-29, 2014 at Lex Hotel in Cebu City to describe CLIMBS 5-year strategic plan for 2015 to 2019. In November 2014, management supported the strategic plan with a described operating plan for 2015 using the balanced scorecard. The scorecard include key financial indicators that will be achieved up to year 2020 by winning customers' trust through improving quality, strategically allocating resources to selected and focused areas, ensuring sound business operations, fostering a professionalized cooperative culture; and honing our employees and agencies.

| CLIMBS FINANCIAL PERSPECTIVE BY 2019 |   |
|--------------------------------------|---|
| Gross Premium                        | Total CLIMBS: P5 Billion<br>Life: P4 Billion<br>Non-Life: P1 Billion  |
| Investment Income                    | 7% overall-yield target<br>(on at least P5 Billion liquid funds)  |
| Return on Equity                     | 15% to 18% (at least 17%)   |
| Net Surplus                          | P250 Million (at least, possibly P375 Million)  |
| Paid-Up Capital                      | <ul style="list-style-type: none"><li>We shall reach P1 Billion in Paid-Up Capital</li><li>By 2022, we would have at least P1.2 Billion Paid-Up</li></ul> |
| Net Worth                            | <ul style="list-style-type: none"><li>We shall reach P1.3 Billion Net Worth by 2020.</li><li>By 2022, approximately P1.5 Billion in Net Worth.</li></ul>  |

The strategic plan puts in place the revised organizational structure to improve efficiency and productivity and created a new set of Executive Management Team (EMT). It will also put in effect the redefined roles of Marketing, Selling, Investing, Information Technology System, Coop Assurance Center, and General Agency Managers.

### CLIMBS 6-Storey Building

As part of CLIMBS' developmental plan, a six-storey building estimated to cost Php 66 million will be built on top of the existing 2-Storey Head Office Building in Bulua, Cagayan de Oro City as approved by the Board last December 2014. The said 6-storey building shall house CLIMBS' corporate headquarters. Commercial spaces will be made available for lease on its 1st and 2nd floors. There will be 40-room hostel on the 3rd and 4th floors, while the 5th floor shall be intended for



a coffee shop, wellness gym and dining hall. The 6th floor shall be used as training hall for CLIMBS Institute of Financial Literacy.

## Acquisition

We continue to expand our landholdings in Cagayan de Oro City where the head office is located. The most recent is the acquisition of a 712 square meter property adjacent to the existing land property in Bulua. The Bulua land property has now reached a total area of 4,228 square meters. CLIMBS is also on the look-out for more viable property acquisitions within the heart of Cagayan de Oro City to add to its existing 240-square meter property with a 6-storey commercial building in Tiano-Pacana Streets. This 6-storey building now holds the offices of Investment, Marketing, CLIFSA the subsidiary agency and tenants.



rigid training in partnership with the Insurance Institute for Asia and the Pacific (IIAP) to prepare them in taking more challenging roles in the future. As part of Coop Assurance development plan, this rigorous management training program will also be made available to cooperative managers or executives through the CIFL.



## CLIMBS Management Training Program

Vital to the future shall be the CEO and his management team. Working together interdependently, the team shall be responsible in making the strategy happen.

CLIMBS Executive Management Team selected 20 employees from the original list of 40. The successful candidates will undergo a 4-month

## CLIMBS Institute of Financial Literacy (CIFL)

CIFL has undertaken nine high-level trainings and seminars in the year 2014. These were attended by 360 participants from 162 cooperatives all over the country. This 2015, CIFL continues to operate with an aim of empowering cooperative personnel and executives by enhancing their financial management skills. This year's seminars and trainings will include wealth management trainings which will be conducted by Mr. Efen Cruz of PFA.

## Key Financial Highlights

|                        | 2014     |         | 2013     |        | 2012     |        | 2011   |        | 2010   |        |
|------------------------|----------|---------|----------|--------|----------|--------|--------|--------|--------|--------|
| <b>Assets</b>          | 1,644.30 | 100%    | 1,439.09 | 100%   | 1,134.77 | 100%   | 739.30 | 100%   | 484.85 | 100%   |
| Cash                   | 380.54   | 23.14%  | 339.16   | 23.6%  | 357.24   | 31.5%  | 205.05 | 27.7%  | 185.06 | 38.2%  |
| Investments            | 1,087.59 | 66.14%  | 909.82   | 63.2%  | 649.39   | 57.2%  | 444.48 | 60.1%  | 237.18 | 48.9%  |
| Insurance Receivables  | 30.84    | 1.88%   | 51.68    | 3.6%   | 18.37    | 1.6%   | 19.79  | 2.7%   | 5.43   | 1.1%   |
| Property & Equipment   | 84.20    | 5.12%   | 70.80    | 4.9%   | 86.72    | 7.6%   | 47.98  | 6.5%   | 38.12  | 7.9%   |
| <b>Legal Reserves</b>  | 376.93   | 22.92%  | 331.75   | 23.1%  | 416.17   | 36.7%  | 279.05 | 37.7%  | 160.92 | 33.2%  |
| <b>Net Worth</b>       | 882.95   | 53.70%  | 749.79   | 52.1%  | 309.04   | 27.2%  | 244.27 | 33%    | 205.53 | 42.4%  |
| Net Premium            | 916.30   | 100%    | 860.03   | 100%   | 831.80   | 100%   | 568.16 | 100%   | 353.57 | 100.0% |
| Investment / Other Inc | 61.49    | 6.71%   | 36.68    | 4.3%   | 47.95    | 5.8%   | 27.57  | 4.8%   | 39.00  | 11.0%  |
| <b>Gross Revenue</b>   | 977.79   | 106.71% | 896.72   | 104.3% | 879.75   | 105.8% | 595.73 | 104.8% | 392.57 | 111.0% |
| Claims                 | 418.11   | 45.63%  | 401.57   | 46.7%  | 415.23   | 49.9%  | 252.66 | 44.5%  | 150.85 | 42.7%  |
| Policy Reserves        | 94.99    | 10.37%  | 113.90   | 13.2%  | 116.61   | 14%    | 106.03 | 18.7%  | 65.16  | 18.4%  |
| Commission             | 245.17   | 26.76%  | 223.22   | 26.0%  | 208.08   | 25%    | 134.88 | 23.7%  | 97.33  | 27.5%  |
| Salaries / Benefits    | 40.84    | 4.46%   | 30.44    | 3.5%   | 25.22    | 3%     | 23.82  | 4.2%   | 15.42  | 4.4%   |
| Other Expenses         | 73.65    | 8.04%   | 55.57    | 6.5%   | 55.85    | 6.7%   | 37.76  | 6.6%   | 30.07  | 8.5%   |
| <b>Total Expenses</b>  | 872.76   | 95.25%  | 824.68   | 95.9%  | 820.99   | 98.7%  | 555.16 | 97.7%  | 358.84 | 101.5% |
| <b>Net Income</b>      | 105.03   | 11.46%  | 72.03    | 8.4%   | 58.76    | 7.1%   | 40.58  | 7.1%   | 33.72  | 9.5%   |

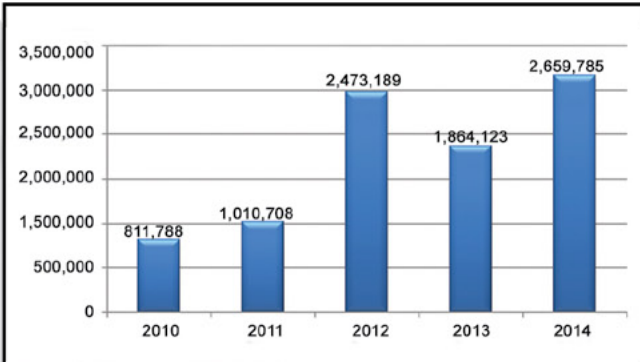
| Book Value  | 2014        | 2013        | 2012        | 2011        | 2010        |
|---|-------------|-------------|-------------|-------------|-------------|
| Number of Common Shares<br>(with par value of P1,000/share) | 339,149     | 248,568     | 178,899     | 140,149     | 119,718     |
| Total Equity - net of Preferred Shares                      | 790,521,526 | 688,880,951 | 235,973,852 | 178,890,040 | 144,374,340 |
| Book Value per shares (BV/PS)                               | 2,331       | 2,691       | 1,319       | 1,276       | 1,206       |

| DIVIDEND                 | 2014   | 2013   | 2012  | 2011  | 2010  |
|--------------------------|--------|--------|-------|-------|-------|
| DIVIDEND PER SHARE (DPS) | 100    | 100    | 91.30 | 89.20 | 82.87 |
| DIVIDEND RATE            | 10.00% | 10.00% | 9.13% | 8.92% | 8.29% |

## BUSINESS PERFORMANCE

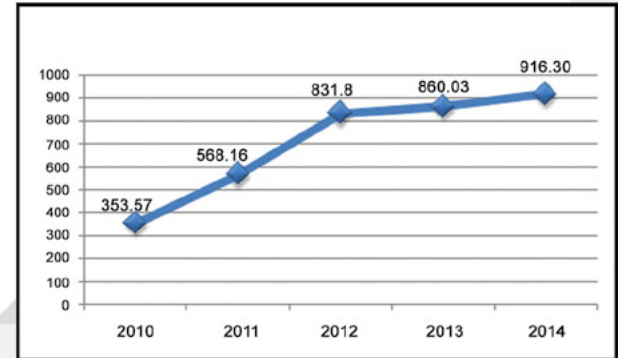
### Confirmation of Coverage

Total Life confirmation of coverage (COC) issued for the year registered an increase of Php 56,270,000.00 in premiums covering 2,659,785 individuals. The nonlife premiums of Php 117,414,000.00 represents 22,559 issued policies.



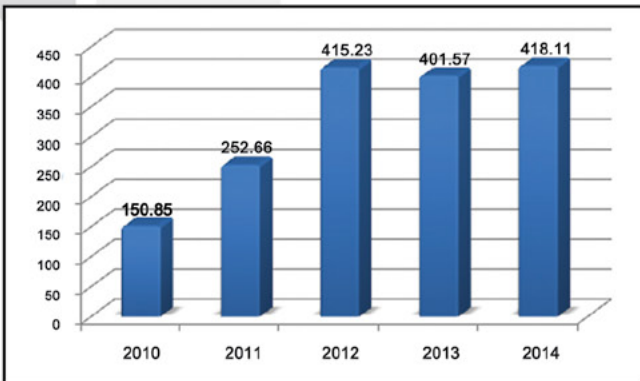
### Net Premium (in millions)

Net Premium registered an increase of 6.54% equivalent to Php 56,270,000.00. For Investments and Other Income, an increase amounting to Php 30,530,000.00 equivalent to 98.62% was reported this year.



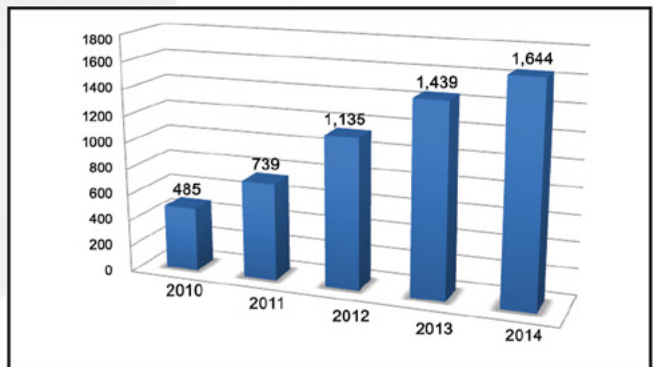
### Benefits & Claims paid (in millions)

The increase in Claims reached Php 16,550,000.00 which is about 4.12% compared last year. Net income increased by 45.51% worth Php 33,230,000.00 was earned for the year.

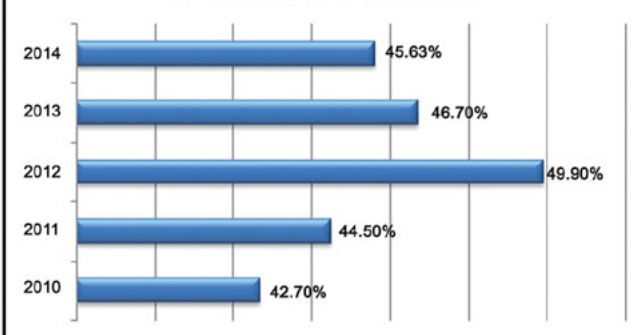


### Total Assets (in millions)

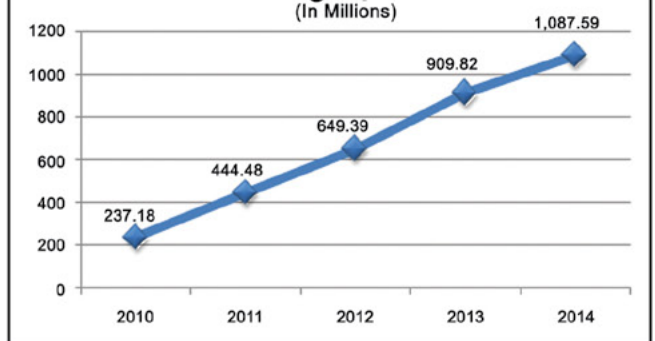
Assets increased by Php 205,210,000.00 which is equivalent to 14.26%. Managed Funds likewise increased by 19.54% for an increased of Php 177,770,000.00. Net worth rose by 17.76% which is worth Php 133,160,000.00



### % Claims to Premiums



### Managed Funds



We are hopeful that we can surpass our achievements in 2014. We will continue to work towards creating a world-class insurance and financial services cooperative. We are very grateful for your continued support in the future.

  
**Fermin L. Gonzales**  
 President & CEO

  
**Judge Esperanza F. Garcia (Ret.)**  
 Chairperson



## STATEMENT OF OPINION

The valuation of actuarial reserves on outstanding policies of **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE (CLIMBS)** as of **December 31, 2014** was based on the data provided to me by the Accounting and Actuarial Departments of CLIMBS. Reasonable checks were done based only on comparison with 2013 year end data since I had no access to the valuation system. Except for the foregoing, I, Panfilo P de la Paz, consulting actuary of CLIMBS, express the opinion that, the legal certificate/policy reserves and claim reserves of the Cooperative as of 31 December 2014 amounting to:

- P **333,119,981.99** (individual/group life insurance contracts)
- P **7,808,862.59** (MAS plan)
- P **181,699,915.98** (claims reserve liability)

are adequate and accurate. The calculations of the legal certificate/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

26 March 2015



## STATEMENT OF OPINION

As regards MAS certificate loans, I, **Panfilo P de la Paz**, Consulting Actuary of (CLIMBS), based on the data supplied to me by their Accounting and Actuarial Departments to the best of my knowledge and belief, after conducting such tests as I have deemed necessary, expresses the opinion that:

1. the certificate loan balances (contribution and equity loans) as of 31 December 2014 amounting to **163,729.13** bear reasonable relationship with the corresponding member equity values; and
2. for the certificates with loan balances, appropriate reserves have been set up, on a basis consistent with prior years and generally accepted actuarial principles.

The tests consisted of matching the certificate loans' files with the in-force file on a random basis. Similarly, the individual certificate loan balances were matched with the certificate's equity values.

**PANFILO P DE LA PAZ, FASP, FSA**  
Consulting Actuary  
PTR No 3941

26 March 2015



## ANNEX "A"

### A. Assets

|   |              |
|---|--------------|
| 1. Net life insurance premiums and annuity considerations due and uncollected | 9,592,294.42 |
| 2. Accident and health premiums due and uncollected                           | Nil          |

### B. Liabilities

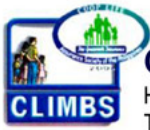
|   |                |
|---|----------------|
| 1. Aggregate reserve for life policies and contracts  | 333,119,981.99 |
| 2. Aggregate reserve for accident and health policies   | Nil            |
| 3. Supplementary contracts without life contingencies   | Nil            |
| 4. Policy and contract claims   |                |
| 4.1 Due and unpaid  | 118,196,331.69 |
| 4.2 In course of settlement:  |                |
| 4.2.1 Resisted  | 1,103,514.92   |
| 4.2.2 Others  | Nil            |
| 4.3 Incurred but not unreported (less reinsurance)  | 62,400,069.37  |
| 4.4 Total (Gross)   | 181,699,915.98 |
| 4.5 Add: Reinsurance assumed on reported claims   | Nil            |
| 4.6 Less: Reinsurance ceded on reported claims  | Nil            |
| 4.7 Net Liability   | 181,699,915.98 |
| 5. Provision for policyholders' dividends and experience refund payable in following calendar year – estimated amount | Nil            |
| 6. Amount provisionally held for deferred dividend policies not included in Item 5                                    | Nil            |
| 7. Policy and contract liabilities not included elsewhere:  |                |
| 7.1 Surrender values on cancelled policies  | Nil            |
| 8. "Cost of collection" on premiums and annuity considerations uncollected in excess of total loading thereon         | Nil            |
| 9. Aggregate equity value reserves for MAS Plan   | 7,808,862.59   |

**C. Net deferred premium** **Nil**

**D. All other accounts, if any, as may have to be certified to by the Actuary.** **Nil**

\* all figures are in Philippine Pesos

CLIMBS  
2014 Valuation Results



## 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](mailto:head_office@climbs.coop)

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of the CLIMBS Life and General Insurance Cooperative is responsible for the preparation and fair presentation of the consolidated financial statements of the Cooperative for the years ended December 31, 2014 and 2013, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the members of the Cooperative.

Quilab, Cabilin, Bato & Co., CPAs, the independent auditors appointed by the Board of Directors for the periods December 31, 2014 and 2013, have examined the financial statements of the Cooperative in accordance with Philippine Standards on Auditing, and in their reports to the Board of Directors and Members, have expressed their opinions on the fairness of presentation upon completion of such examinations.

April 9, 2015, Bulua, Cagayan de Oro City.

  
**FERMIN L. GONZALES**  
President and CEO

  
**JORGE G. LUMASAG, JR.**  
Executive Vice President /CFO

  
**REYNALDO G. SAN ANDRES**  
Compliance Officer



◆ **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**  
SEC No. 0182-FR-1 (Mar. 25, 2016)  
BOA/PRC Reg. No. 0250 (Dec. 31, 2017)  
CDA CEA No 0015-AF (Mar. 2, 2017)  
NEA No. 2013-07-00011 (Jul. 20, 2016)  
IC No. F-2014/017 (Oct. 23, 2017)  
BSP (Jun. 30, 2016)

## 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 statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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 audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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, 2014 and 2013 and of its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

*Juliet Cabalin Bato & Co*

PTR No. CDO 3611588B

January 5, 2015

Cagayan de Oro City

April 9, 2015  
Cagayan de Oro City, Philippines

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CLIMBS Life and General Insurance Cooperative and Subsidiary

December 31

2014

2013

### ASSETS

|   |                       |                |
|---|-----------------------|----------------|
| <b>Cash and Cash Equivalents</b> (Note 4) | <b>₱380,536,463</b>   | ₱339,157,482   |
| <b>Insurance Receivables</b> (Note 5)     | <b>30,841,756</b>     | 51,677,245     |
| <b>Financial Assets</b>                   |                       |                |
| Held-to-maturity investments (Note 6)     | 706,500,247           | 715,490,378    |
| Available-for-sale securities (Note 7)    | 381,091,976           | 194,333,747    |
| Loans and receivables (Note 8)            | 9,967,119             | 16,234,756     |
| <b>Property and Equipment</b> (Note 9)    | <b>84,200,014</b>     | 70,825,215     |
| <b>Investment Property</b> (Note 10)      | <b>40,948,203</b>     | 41,275,259     |
| <b>Other Assets</b> (Note 11)             | <b>10,219,811</b>     | 10,092,524     |
|   | <b>₱1,644,305,589</b> | ₱1,439,086,606 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Liabilities

|  |                    |              |
|--|--------------------|--------------|
| Insurance contract liabilities (Note 12)                               | ₱376,931,597       | ₱331,748,686 |
| Insurance payables (Note 12)   | 204,707,092        | 243,590,288  |
| Trade and other payables (Note 13)                                     | 116,700,007        | 70,739,840   |
| Interest on capital, patronage and experience refund payable (Note 20) | 63,019,943         | 43,220,841   |
| <b>Total Liabilities</b>   | <b>761,358,639</b> | 689,299,655  |

#### Shareholders' Equity

|                                   |                    |             |
|-----------------------------------|--------------------|-------------|
| Share capital (Note 14)           | 424,826,664        | 329,475,008 |
| Statutory reserves (Note 16)      | 93,422,350         | 68,503,907  |
| Surplus reserves (Note 15)        | 364,697,936        | 351,808,036 |
| <b>Total Shareholders' Equity</b> | <b>882,946,950</b> | 749,786,951 |

**₱1,644,305,589**    **₱1,439,086,606**

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPEHENSIVE INCOME

CLIMBS Life and General Insurance Cooperative and Subsidiary

| <i>Years Ended December 31</i>   | <b>2014</b>         | 2013         |
|--|---------------------|--------------|
| <b>REVENUE</b>   |                     |              |
| Gross premiums on insurance contracts                                  | <b>₱965,823,614</b> | ₱881,686,792 |
| Less reinsurers' share of gross premiums on insurance contracts        | <b>49,522,101</b>   | 21,655,842   |
| Net insurance premiums   | <b>916,301,513</b>  | 860,030,950  |
| Investment and interest income   | <b>56,013,139</b>   | 30,956,849   |
| Commissions earned and other underwriting income                       | <b>2,128,005</b>    | 1,785,794    |
| Other income   | <b>3,346,015</b>    | 3,946,475    |
|  | <b>977,788,672</b>  | 896,720,068  |
| <b>BENEFITS AND OPERATING EXPENSES</b>                                 |                     |              |
| Gross benefits and claims paid on insurance contracts                  | <b>418,113,845</b>  | 410,565,263  |
| Increase in legal policy reserves                                      | <b>94,988,034</b>   | 113,895,790  |
| Reinsurers' share of gross benefits and claims paid                    | -                   | (8,994,075)  |
| Net insurance benefits and claims                                      | <b>513,101,879</b>  | 515,466,978  |
| Collection costs   | <b>245,173,830</b>  | 223,217,141  |
| General and administrative <i>(Note 18)</i>                            | <b>61,682,166</b>   | 48,066,258   |
| Salaries, wages, officers' and employees' benefits <i>(Note 19)</i>    | <b>40,838,713</b>   | 30,435,841   |
| Depreciation <i>(Notes 9 and 10)</i>                                   | <b>11,958,845</b>   | 7,499,114    |
|  | <b>872,755,433</b>  | 824,685,332  |
| <b>PROFIT FOR THE YEAR</b> <i>(Note 17)</i>                            | <b>105,033,239</b>  | 72,034,736   |
| <b>OTHER COMPREHENSIVE INCOME</b>                                      |                     |              |
| Items that maybe subsequently reclassified to profit or loss:          |                     |              |
| Change in value of available-for-sale financial assets <i>(Note 7)</i> | <b>944,927</b>      | (1,441,649)  |
| <b>COMPREHENSIVE INCOME FOR THE YEAR</b>                               | <b>₱105,978,166</b> | ₱70,593,087  |
| <b>Earnings Per Common Share</b> <i>(Note 21)</i>                      | <b>₱100.00</b>      | ₱100.00      |

*See Notes to Consolidated Financial Statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CLIMBS Life and General Insurance Cooperative and Subsidiary

December 31

2014

2013

### SHARE CAPITAL *(Note 14)*

#### Preferred Shares – ₱1,000 Par Value

|   |             |             |
|---|-------------|-------------|
| Opening balances  | ₱80,906,000 | ₱73,069,000 |
| Additional investments received during the year, net of withdrawals | 10,090,000  | 7,837,000   |
| Closing balances  | 90,996,000  | 80,906,000  |

#### Common Shares – ₱1,000 Par Value

|   |             |             |
|---|-------------|-------------|
| Opening balances  | 248,568,000 | 178,899,000 |
| Additional investments received during the year, net of withdrawals | 90,580,000  | 69,669,000  |
| Closing balances  | 339,148,000 | 248,568,000 |

#### Treasury Stocks

(5,317,966) –

#### Deposit for future subscriptions

630 1,008

Total Share Capital 424,826,664 329,475,008

### SURPLUS RESERVES *(Note 15)*

|   |             |             |
|---|-------------|-------------|
| Opening balances                                  | 353,249,685 | 5,876,031   |
| Share in net income during the year               | 10,503,324  | 7,203,474   |
| Net transactions during the year <i>(Note 12)</i> | –           | 340,170,180 |
| Closing balances                                  | 363,753,009 | 353,249,685 |

### STATUTORY RESERVES *(Note 16)*

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Opening balances                    | 68,503,907  | 51,197,912  |
| Share in net income during the year | 31,509,972  | 21,610,421  |
| Net transactions during the year    | (6,591,529) | (4,304,426) |
| Closing balances                    | 93,422,350  | 68,503,907  |

### REVALUATION RESERVE ON AFS FINANCIAL ASSETS

|   |             |             |
|---|-------------|-------------|
| Opening balances  | (1,441,649) | –           |
| Sale of original investment securities <i>(Note 7)</i>                    | 1,441,649   | –           |
| Gains (losses) from investment securities during the year <i>(Note 7)</i> | 944,927     | (1,441,649) |
| Closing balances  | 944,927     | (1,441,649) |

₱882,946,950 ₱749,786,951

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

CLIMBS Life and General Insurance Cooperative and Subsidiary

Years Ended December 31

2014

2013

### CASH FLOWS FROM OPERATING ACTIVITIES

|  |              |               |
|--|--------------|---------------|
| Profit for the year  | ₱105,033,239 | ₱72,034,736   |
| Add (deduct) adjustments for:                                    |              |               |
| Depreciation during the year (Note 9)                            | 11,958,845   | 7,499,114     |
| Provision for retirement benefits (Note 11)                      | 1,862,215    | 2,245,910     |
| Investment and interest income earned (Notes 4, 6 and 7)         | (56,013,139) | (30,956,849)  |
| Operating income before changes in working capital               | 62,841,160   | 51,822,911    |
| Decrease (increase) in:  |              |               |
| Insurance receivable (Note 5)                                    | 20,835,489   | (33,304,712)  |
| Loans and receivable (Note 8)                                    | 6,267,637    | (9,901,169)   |
| Other assets (Note 11)   | (1,326,785)  | 1,401,528     |
| Increase (decrease) in:  |              |               |
| Insurance contract liabilities (Note 12)                         | 45,182,911   | (84,421,244)  |
| Insurance payables (Note 12)                                     | (38,883,196) | (49,531,960)  |
| Trade and other payables (Note 13)                               | 45,960,167   | (7,564,073)   |
| Interest on share capital and patronage refund payable (Note 20) | 19,799,102   | 5,085,404     |
| Net Cash (Used for) Provided from Operating Activities           | 160,676,485  | (127,413,315) |

### CASH FLOWS FROM FINANCING ACTIVITIES

|  |               |              |
|--|---------------|--------------|
| Additional capital subscriptions received, net of withdrawals (Note 14)  | 95,351,656    | 77,506,099   |
| Increase in surplus reserves (Note 15)                                   | 12,889,900    | 345,932,005  |
| Increase in statutory reserves (Note 16)                                 | 24,918,443    | 17,305,995   |
| Decrease in retirement benefit obligation – net of plan assets (Note 11) | (662,717)     | (1,474,720)  |
| Distribution of profit for the year (Note 20)                            | (105,033,239) | (72,034,736) |
| Net Cash Provided from Financing Activities                              | 27,464,043    | 367,234,643  |

### CASH FLOWS FOR INVESTING ACTIVITIES

|  |               |               |
|--|---------------|---------------|
| Investments income earned (Notes 4, 6 and 7)                         | 56,013,139    | 30,956,849    |
| Disposals (acquisition) of:  |               |               |
| Held-to-maturity investments (Note 6)                                | 8,990,131     | (167,097,792) |
| Available-for-sale financial assets (Note 7)                         | (186,758,229) | (93,334,884)  |
| Additions to property and equipment and investment property (Note 9) | (25,006,588)  | (28,433,265)  |
| Net Cash Used for Investing Activities                               | (146,761,547) | (257,909,092) |

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 41,378,981 (18,087,764)

**OPENING CASH AND CASH EQUIVALENTS** 339,157,482 357,245,246

**CLOSING CASH AND CASH EQUIVALENTS** (Note 4) **₱380,536,463** **₱339,157,482**

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CLIMBS Life and General Insurance Cooperative and Subsidiary

As of and for the Years Ended December 31, 2014 and 2013

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### 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 Parent Cooperative 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", obtaining therein its new Registration No. 9520-10008741 on March 1, 2010.

The Parent Cooperative is a holder of a Composite Insurance License (Life and Non-Life) 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 December 31, 2015.

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, (8) Member Year Renewable Accident and Life, and (9) Permanent Plan ( 5 Pay Life, 5 Pay life – 15years endowment, 10 Pay Life – 15 years endowment).

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 Alpha Insurance, Malayan Insurance Charter Ping-an Insurance, Stronghold Insurance, and Paramount Life and General 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, and with the Insurance Commission on July 1, 2010 with Registration No. N312693-0. Pursuant to CDA Memorandum Circular No. 2010-05, Series of 2010, the Subsidiary Cooperative complied with the mandatory filing for the registration of amendment in accordance with the provisions of Republic Act (R.A.) No. 9520, known as the "Philippine Cooperative Code of 2008", obtaining therein its new Registration No. 9520-10017273 on September 30, 2010.

Area of Operation and Locations of Business Offices

The Parent Cooperative and the Subsidiary Cooperative's area of operation cover the whole of the Philippines. The principal place of business and Head Office of the Parent Cooperative is located at 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 holds office on the Fifth Floor, CLIMBS Building, Pacana-Tiano Streets, Cagayan de Oro City.

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

Tax Exemptions

The Parent Cooperative is a holder of Certificate of Tax Exemption No. 00015-11-RR-16-RDO98 which entitles it with tax exemptions for five (5) years until March 29, 2015. Likewise, the Subsidiary Cooperative is a holder of Tax Exemption No. 00103-11-RR-16-RDO98 which entitles it with tax exemptions for five (5) years until December 15, 2016.

As cooperatives transacting business with members only, both Cooperatives are entitled to the following tax exemptions and tax incentives provided for under Article 60 of R. R. No. 9520, as implemented by Section 7 of the Joint Rules and Regulations Implementing Articles 60, 61 and 144 of R.A. No. 9520:

- (a) Income tax on income from CDA-registered operations;
- (b) Value-Added Tax (VAT) under Section 109 pars. (r), (s), (t) and (u) of the Tax Code of 1997 on CDA-registered sales or transactions;
- (c) Three percent (3%) Percentage Tax under Section 116 of the Tax Code of 1997;
- (d) Donor's tax on donations to duly accredited charitable, research and educational institutions, and reinvestment to socio-economic projects within the area of operation of the cooperative;
- (e) Excise tax under Title VI of the Tax Code of 1997 of which it is directly liable;
- (f) Documentary Stamp Tax imposed under Title VII of the Tax Code of 1997, provided, however, that the other party of 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 Tax Code of 1997; and
- (h) Exemption from 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.

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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 financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and Philippine Interpretations-IFRIC.



#### 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 reporting date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at reporting 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.

#### Presentation of Financial Statements

The Group's statements of financial position are presented broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) are disclosed in Note 23.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

#### Basis of Consolidation

The consolidated financial statements include the accounts of CLIMBS Life and General Insurance Cooperative (Parent 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) recognizes the fair value of the consideration received, fair value of any investment retained and any surplus or deficit in profit or loss; and (c) reclassifies the Parent Company's share of components previously recognized in the other comprehensive income to profit or loss or retained earnings, as appropriate.

#### Adoption of New and Amended Standards and Interpretations

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014. The nature and impact of each new standard and interpretation adopted by the Group is detailed below. Note however that not all new standards and interpretations impact the Group's financial statements.

- IFRS 10 - Investment Entities - Amendments to IFRS 10

The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than

consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements.

An investment entity is an entity that meets all of the following criteria (the definition):

- It obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
- It commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- It measures and evaluates performance of substantially all of its investments on fair value basis.

In assessing whether it meets the definition an entity is required to consider whether it has the following typical characteristics of an investment entity:

- It has more than one investment
- It has more than one investor
- It has investors are not related parties of the entity
- It has ownership interests in the form of equity or similar interests.

Not meeting one or more of the typical characteristics does not preclude an entity from being an investment entity. However, it does indicate that additional judgment is required in determining whether the entity meets the definition of an investment entity. Accordingly, an investment entity that does not meet one or more of the typical characteristics is required to disclose the reasons for concluding that it is nevertheless an investment entity.

An entity will not be disqualified from qualifying as an investment entity simply because: (a) it provides investment-related services (e.g. investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity. (b) If it provides management services, strategic advice and financial support to an investee, directly or through a subsidiary, but only if these activities are undertaken to maximize the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity.

The amendment did not result in any effect on the Group's financial statements.

- IAS 32 - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)  
The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify: (a) the meaning of 'currently has a legally enforceable right of set-off', and (b) that some gross settlement systems may be considered equivalent to net settlement. The amendments are part of the IASB's offsetting project. As part of that project, the IASB also separately issued Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) which is mandatory for periods beginning on or after 1 January 2014.

The amendment did not result in any effect on the Group's financial statements.

- IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS39  
The amendments introduce a narrow scope exception that would allow the continuation of hedge accounting under IAS 39 (and IFRS 9) when a derivative is novated, subject to the following criteria: (1) the novation comes as a consequence of laws or regulations (or the introduction of laws or regulations), (2) the parties to the hedging instrument agree that one or more clearing counter

parties replace their original counterparty to become the new counterparty of each party, and (3) any changes to the hedging instrument are limited only to those that are necessary to effect such a replacement of the counterparty. These changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty, and include: (a) changes in collateral requirements, (b) rights to offset receivables and payables balances, and (c) charges levied.

The amendment does not affect the Group's financial statements since it has no derivatives.

- IAS 36 - Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36  
The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use, and require an entity to:
  - 1) Disclose the recoverable amount of an asset (or CGU) only in periods in which impairment has been recorded or reversed in respect of that asset (or CGU)
  - 2) Disclose the discount rate when an asset (or CGU) has been impaired (or impairment reversed) where the recoverable amount has been determined based on fair value less costs of disposal using a present value technique
  - 3) To expand and clarify the disclosure requirements when an assets (CGUs) recoverable amount has been determined on the basis of fair value less disposal, including:
    - The level of the fair value hierarchy<sup>1</sup> within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable)
    - For fair value measurements categorized within Level 21 and Level 31 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity is required to disclose that change and the reason(s) for making it
    - For fair value measurements categorized within Level 21 and Level 31 of the fair value hierarchy, each key assumption on which management has based its determination off air value less costs of disposal. Key assumptions are those to which the asset's (CGU's)recoverable amount is most sensitive
    - The discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

The amendment did not result in any effect on the Group's financial statements.

- IFRIC 21 - Levies  
IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.  
A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/ or regulations), except for:
  - a) Outflows of resources within the scope of other IFRSs (e.g. income taxes under IAS 12
  - b) Income Taxes)
  - c) Fines or other penalties relating to breaches of the legislation.

The following factors do not create or imply the existence of an obligating event:

- Preparation of the financial statements under the going concern principle
- Economic compulsion of the entity.

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time. If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is breached, and not before

The amendment did not result in any effect on the Group's financial statements.

New and Revised IFRSs in Issue but not yet Effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- (a) IFRS 9 - Financial Instruments, which will become effective for annual periods beginning on or after January 1, 2018, with earlier application permitted;
- (b) IFRS 15 – Revenue from Contracts with Customers, which will become effective for annual periods beginning on or after January 1, 2017, with earlier application permitted;
- (c) Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
- (d) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
- (e) Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants, which will become effective for annual periods beginning on or after January 1, 2016, with earlier application permitted;
- (f) Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions, which will become effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

There are no other PFRSs or Philippine Interpretation IFRIC that are not yet effective that would be expected to have a material impact on the financial statements of the Group.

Cash and Cash Equivalents

Cash and cash equivalents, which are carried in the books at cost, substantially consist of cash on hand and other cash items, 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.

Financial Assets

Financial assets, which are recognized when the Group becomes a party to a contractual term of the financial instrument, include cash and other financial instruments. The Group classifies its financial assets in the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Group has no financial assets 'at fair value through profit or loss' (FVTPL). The following are the available 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 on 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.

◦ AFS Securities

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. This includes investment in stock of member cooperatives and organizations and is not more than 20% of the member cooperatives' total equity. The Group intends to hold on to the investment for a longer period of time. Also included are investments in bonds which 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. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'Gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

◦ 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 with the Group provides money, goods and services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, premiums receivable, sales contract receivables and all receivables from customers and other banks (due from other banks). They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

The Group's loans and receivables comprise 'cash and cash equivalents' and 'loans and receivables' in the statement of financial position.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

For assets carried at amortized cost, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of profit or loss.

For assets classified as available for sale, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria used in assets carried at amortized cost. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of profit or loss.

#### 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.

#### 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.

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.

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.

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.

#### Statutory and Other Reserves

The Group establishes the statutory reserves in accordance with the provisions of Republic Act No. 9520, An Act Amending the Cooperative Code of the Philippines to be Known as the "Philippine Cooperative Code of 2008". The following are the nature of these reserves:

- 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.
- Optional Fund  
Optional Fund is intended either for land and building, community development or any other necessary fund. The fund receives 7% of allocation from the annual profit of the Group.
- Cooperative Education and Training Fund (CETF)  
CETF is intended for the education and training and other purposes of the Group and receives 10% allocation from the net profit of the Group every year. Half of the allocation to the Fund is remitted to the CETF of the federation or union to which the Group is affiliated. Upon the dissolution of the Group, the unspent balance of the Fund shall be credited to the CETF of the federation or union to which the Group is affiliated.
- Cooperative Development Fund (CDF)  
CDF is set aside for projects or activities that will benefit the community where the Group operates and receives annual allocation of 3% of net profit.



### 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 leases 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.

◦ Group as Lessor

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.

Employee Benefits

The Group does not provide its employees with post-employment benefit program. The Group employees are provided with the following benefits:

◦ Retirement Benefit Obligation

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.

◦ Termination Benefits

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.

◦ Compensated Absences

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) Of the remaining net surplus, an equivalent of ten (10%) is set-aside by the Group under Unimpaired Surplus and the rest 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.

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### **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.

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**Note 4**  
**Cash and Cash Equivalents**

This consists of the following:

| <i>December 31</i>  | <b>2014</b>         | 2013         |
|---|---------------------|--------------|
| Cash with commercial banks and trust companies                | <b>₱208,769,963</b> | ₱115,048,046 |
| Cash with thrift banks, rural banks and cooperatives          | <b>90,899,077</b>   | 67,874,639   |
| Petty cash, claims and revolving funds                        | <b>48,944,549</b>   | 45,830,377   |
| Short-term deposits with commercial banks and trust companies | <b>31,922,874</b>   | 110,404,420  |
|   | <b>₱380,536,463</b> | ₱339,157,482 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term deposits were made for varying periods of between one day and one month depending on the liquidity requirements of the Group. Time deposits (in pesos) earn interest rates ranging from 1.25% to 8.00%.

Interest income earned from cash and cash equivalents, treated as part of investment and interest income in the statement of profit or loss, amounted ₱4,675,411 and ₱5,125,963 in 2014 and 2013, respectively.

**Note 5**  
**Insurance Receivable**

This account consists of the following:

| <i>December 31</i>  | <b>2014</b>        | 2013        |
|---|--------------------|-------------|
| Amounts recoverable from accepting companies                            | <b>₱16,886,566</b> | 13,916,699  |
| Premiums receivable, net of allowance for impairment losses (see below) | <b>13,219,425</b>  | ₱37,091,237 |
| Automatic contribution loans of MAS members                             | <b>572,036</b>     | 520,806     |
| Policy loans  | <b>163,729</b>     | 148,503     |
|   | <b>₱30,841,756</b> | ₱51,677,245 |

The Group provided impairment losses on its non-life premiums receivable amounting ₱9 million in 2014 and ₱6,387,275 in 2013. 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:

| <i>December 31</i> | <b>2014</b>         | 2013         |
|--------------------|---------------------|--------------|
| Government bonds   | <b>₱520,281,189</b> | ₱397,676,946 |
| Commercial papers  | <b>186,219,058</b>  | 317,813,432  |
|                    | <b>₱706,500,247</b> | ₱715,490,378 |

Government bonds consist of 5- to 25-year peso-denominated bonds issued by the Philippine Government bearing interest ranging from 3.25% to 9.13% per annum maturing on various dates from 2014 to 2037. The following are the fair values of investments in bonds by contractual maturity dates:

| <i>December 31</i>                     | <b>2014</b>         | 2013          |
|--|---------------------|---------------|
| Due within one year                    | <b>₱111,536,118</b> | ₱ 317,813,432 |
| Due after one year through five years  | <b>101,089,077</b>  | 80,845,265    |
| Due after five years through ten years | <b>493,875,052</b>  | 316,831,681   |
|  | <b>706,500,247</b>  | ₱715,490,378  |

Commercial papers include time deposits with commercial and cooperative rural banks earning interest from 1.35 % to 8.00% per annum. Total investment income earned amounted ₱29,478,715 and ₱30,564,674 during 2014 and 2013, respectively. The carrying amounts of the investments are determined to approximate their fair values as at December 31, 2014 and 2013.

**Note 7**  
**Available-for-Sale Securities**

These consist of the following:

| <i>December 31</i>                | <b>2014</b>         | 2013         |
|-----------------------------------|---------------------|--------------|
| Equity in managed funds           | <b>₱341,792,893</b> | ₱157,213,689 |
| Equity securities (common shares) | <b>39,299,083</b>   | 37,120,058   |
|                                   | <b>381,091,976</b>  | ₱194,333,747 |

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 equity securities 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 the remaining equity securities have been determined to approximate their fair values as at December 31, 2014 and 2013.

In 2013, certain AFS securities were determined to have changed in value and losses amounting ₱1,441,649 were recognized in the books. In 2014, the same AFS securities were sold at a realized loss of ₱602,198. In 2014 also, the Cooperative purchased other AFS securities that changed in value resulting to unrealized gain of ₱944,926.

**Note 8**  
**Loans and Receivables**

The loans and receivables consist of the following:

| <i>December 31</i>                 | <b>2014</b>       | 2013        |
|------------------------------------|-------------------|-------------|
| Accounts receivable – others       | <b>₱7,096,549</b> | ₱8,620,560  |
| Accrued investment income          | <b>2,476,808</b>  | 1,631,180   |
| Advances to officers and employees | <b>393,762</b>    | 5,982,916   |
|                                    | <b>₱9,967,119</b> | ₱16,234,656 |

Management believes that the foregoing accounts are not impaired as at December 31, 2014.

**Note 9**  
**Property and Equipment – At Cost**

This consists of the following:

| <i>December 31</i>                       | <b>2014</b>         | 2013        |
|--|---------------------|-------------|
| Land and improvements                    | <b>₱19,803,480</b>  | ₱14,854,607 |
| Buildings and improvements               | <b>51,983,085</b>   | 47,901,371  |
| Furniture, fixtures and office equipment | <b>30,540,894</b>   | 19,966,940  |
| Service vehicles                         | <b>15,658,882</b>   | 14,253,597  |
| Construction in progress                 | <b>720,971</b>      | –           |
|  | <b>118,707,312</b>  | 96,976,515  |
| Less accumulated depreciation            | <b>(34,507,298)</b> | 26,151,300  |
|  | <b>₱84,200,014</b>  | ₱70,825,215 |

The reconciliation of the movements of the accounts follows:

| <i>December 31, 2014</i>          | <i>Opening Balances</i> | <i>Additions</i> | <i>Disposals/Adjstmnts</i> | <i>Closing Balances</i> |
|-----------------------------------|-------------------------|------------------|----------------------------|-------------------------|
| <b>Cost</b>                       |                         |                  |                            |                         |
| Land and improvements             | ₱14,854,607             | ₱4,948,873       |                            | 19,803,480              |
| Buildings and improvements        | 47,901,371              | 4,081,714        |                            | 51,983,085              |
| Furniture, fixtures and equipment | 19,966,940              | 10,573,954       |                            | 30,540,894              |
| Service vehicles                  | 14,253,597              | 3,606,592        | (₱2,201,307)               | 15,658,882              |
| Construction in progress          | –                       | 720,971          |                            | 720,971                 |
|                                   | 96,976,515              | 23,932,104       | (2,201,307)                | 118,707,312             |
| <b>Accumulated Depreciation</b>   |                         |                  |                            |                         |
| Buildings and improvements        | 9,368,939               | ₱4,296,792       |                            | 13,665,731              |
| Furniture, fixtures and equipment | 11,264,107              | 3,337,791        |                            | 14,601,898              |
| Service vehicles                  | 5,518,254               | 2,576,365        | (₱1,854,950)               | 6,239,669               |
|                                   | 26,151,300              | 10,210,948       | (1,854,950)                | 34,507,298              |
|                                   | ₱70,825,215             | ₱13,721,156      | (₱346,357)                 | 84,200,014              |

*December 31, 2013*

|                                   |             |             |               |             |
|-----------------------------------|-------------|-------------|---------------|-------------|
| <b>Cost</b>                       |             |             |               |             |
| Land and improvements             | ₱12,394,089 | ₱2,460,518  |               | ₱14,854,607 |
| Buildings and improvements        | 45,975,200  | 1,926,171   |               | 47,901,371  |
| Furniture, fixtures and equipment | 15,840,638  | 4,454,432   | (₱328,130)    | 19,966,940  |
| Service vehicles                  | 12,807,327  | 3,630,374   | (2,184,104)   | 14,253,597  |
| Construction in progress          | 20,867,489  | 15,961,770  | (36,829,259)  | –           |
|                                   | 107,884,743 | 28,433,265  | (39,341,493)  | 96,976,515  |
| <b>Accumulated Depreciation</b>   |             |             |               |             |
| Buildings and improvements        | 7,472,616   | 1,896,323   |               | 9,368,939   |
| Furniture, fixtures and equipment | 8,637,747   | 2,954,490   | (328,130)     | 11,264,107  |
| Service vehicles                  | 5,054,057   | 2,648,301   | (2,184,104)   | 5,518,254   |
|                                   | 21,164,420  | 7,499,114   | (2,512,234)   | 26,151,300  |
|                                   | ₱86,720,323 | ₱18,421,917 | (₱36,829,259) | ₱70,825,215 |

The construction in progress represents costs of on-going improvements in the existing buildings. The Group also has various lease contracts with various terms on the buildings it holds area offices. The leases treated as operating leases, registered total lease payments amounting ₱2,533,269 in 2014 and ₱1,604,325 in 2013.



**Note 10**  
**Investment Property**

The details of the investment property account are follows:

| <i>December 31</i>                                | <b>2014</b>        | 2013        |
|---|--------------------|-------------|
| Land  | <b>₱4,446,000</b>  | ₱4,446,000  |
| Buildings and improvement in Tiano-Pacana Streets | <b>38,250,100</b>  | 36,829,259  |
|   | <b>42,696,100</b>  | 41,275,259  |
| Accumulated depreciation                          | <b>1,747,897</b>   | -           |
|   | <b>₱40,948,203</b> | ₱41,275,259 |

The investment property includes a piece of land and a new six-storey building located along Tiano and Pacana Streets in Cagayan de Oro City, which are being leased out to business establishments. The Group reclassified its construction in progress in 2012 to investment property at the end of 2013.

Rental incomes of ₱1,399,050 and ₱617,376 were recognized in the books in 2014 and 2013, respectively, representing the combined incomes of the investment property and the portion of the ground floor of the new CLIMBS Building in Barangay Bulua, although this portion has not yet been derecognized to Investment Property from Buildings and Improvements under Property and Equipment.

**Note 11**  
**Other Assets**

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

| <i>December 31</i>                                    | <b>2014</b>        | 2013        |
|---|--------------------|-------------|
| Refundable deposits                                   | <b>₱4,285,987</b>  | ₱2,652,098  |
| Net pension assets <i>(See paragraphs below.)</i>     | <b>3,039,795</b>   | 3,702,512   |
| Deposits and placements with banks under receivership | <b>2,416,013</b>   | 3,221,351   |
| Others  | <b>478,016</b>     | 516,563     |
|   | <b>₱10,219,811</b> | ₱10,092,524 |

**Net Pension Assets**

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:

| <i>December 31</i>                          | <b>2014</b>         | 2013        |
|---|---------------------|-------------|
| Fair value of plan asset                    | <b>₱14,333,692</b>  | ₱13,134,194 |
| Present value of defined benefit obligation | <b>(11,293,897)</b> | (9,431,682) |
| Net Pension Asset                           | <b>₱3,039,795</b>   | ₱3,702,512  |

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:

| <i>December 31</i> | <b>2014</b>        | 2013        |
|--------------------|--------------------|-------------|
| Opening balance    | <b>₱13,134,194</b> | ₱12,363,004 |
| Actuarial return   | <b>1,199,498</b>   | 771,190     |
|                    | <b>14,333,692</b>  | ₱13,134,194 |

No contributions were made during the year as the plan assets exceed the anticipated retirement obligation; no withdrawals for retirement benefits were made during 2014 and 2013.

The reconciliation of the fair value of plan assets follows:

| <i>December 31</i>             | <b>2014</b>        | 2013        |
|--------------------------------|--------------------|-------------|
| Balance at beginning of year   | <b>₱13,134,194</b> | ₱12,363,004 |
| Expected return on plan assets | <b>630,964</b>     | -           |
| Actuarial gain                 | <b>568,534</b>     | 771,190     |
|                                | <b>₱14,333,692</b> | ₱13,134,194 |

The pension plan assets were distributed as follows:

| <i>December 31</i>         | <b>2014</b>        | 2013        |
|----------------------------|--------------------|-------------|
| Cash and cash equivalents  | <b>₱1,286,630</b>  | ₱1,351,744  |
| AFS financial assets       | <b>12,952,827</b>  | 11,704,169  |
| Accounts receivable        | <b>100,735</b>     | 88,575      |
| Accrued trust fees payable | <b>(6,500)</b>     | (10,294)    |
|                            | <b>₱14,333,692</b> | ₱13,134,194 |

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

| <i>December 31</i>                          | <b>2014</b>        | 2013       |
|---|--------------------|------------|
| Opening balance                             | <b>₱9,431,682</b>  | ₱7,185,772 |
| Current service cost (See Note 19)          | <b>1,862,215</b>   | 2,245,910  |
| Benefits paid during the year               | <b>-</b>           | -          |
| Present Value of Pension Benefit Obligation | <b>₱11,293,897</b> | ₱9,431,682 |

The net benefit expense included in salaries, wages and employees' benefits represents only the current service costs of ₱1,862,215 in 2014 and ₱2,245,910 in 2013.

Deposits and Placements with Banks Under Receivership

The deposits and placements with banks under receivership have been processed for insurance claims from the PDIC. In 2013, the Group recovered a portion of the deposits amounting ₱249,964. Management started to amortize to expense in 2011 some of the losses that it anticipates to incur. A total of ₱645,390 were charged to expense during 2012. It did not recognize further losses in 2013 because many of the closed banks have shown potentials for reopening. In 2014 a total of ₱805,338 were charged to expense.

Other Items

The other items substantially include the computerization costs amortized by the Group over three (3) years. Amortization costs incurred during 2014 and 2013 amounted ₱191,548 and ₱191,548, respectively.

**Note 12**  
**Actuarial Liabilities and Other Policy Liabilities**

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

| <i>December 31</i>                   | <b>2014</b>         | 2013         |
|--------------------------------------|---------------------|--------------|
| Aggregate reserves for life policies | <b>₱333,427,780</b> | ₱282,867,603 |
| Reserved for unearned premiums       | <b>43,503,817</b>   | 48,881,083   |
| Total                                | <b>376,931,597</b>  | 331,748,686  |
| Insurance payables                   | <b>204,707,092</b>  | 243,590,288  |
|                                      | <b>₱581,638,689</b> | ₱575,338,974 |

*Aggregate Reserves for Life Policies*

The amount of insurance contract liabilities (legal policy reserves) and other actuarial items in the financial statements for the years ended December 31, 2014 and 2013, 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.

During the examination conducted by the Actuary Department of the Insurance Commission in May 2013, the Group's recorded aggregate reserves have been found by the IC Examiners to be overstated compared with the amount certified by the Consulting Actuary. The overstatement was determined to have started in 2011 and had been part of the Group's conservative strategies of recognizing more reserve liabilities than what was legally determined through actuarial computations. As a response to the findings of IC examiners, the Group obtained approval from the Insurance Commission to reclassify the overstatement to Surplus Reserves (unencumbered reserves) in the equity portion of the Group. In 2013, a total of ₱ 340,170,180 were reclassified from aggregate reserves for life policies to surplus reserves. (See Note 15.)

*Reserve for Unearned Premiums*

Reserve for unearned premiums represent the reserve established at the end of the year to represent premiums paid in advance for which protection is to be given in the future.

*Insurance Payables*

Insurance payables include policy contract claims, claims in the course of settlement and incurred by not reported claims.

- The policy contract claims include claims due and unpaid benefits amounting ₱126,005,194 in 2014 and ₱102,913,351 in 2013, representing claim benefits that have been processed and that the Group recognizes liability on the claims by the member or its beneficiaries. The aggregate liability includes checks payments that are still outstanding at the accounting office for various reasons like returned/staled checks, undelivered checks to addressees either because the addressees changed addresses or refused to accept payment, etc.
- The claims in the course of settlement amounted ₱1,103,515 in 2014 and ₱94,183,783 in 2013 representing claims reported and unpaid at the end of the year pending submission of documentary requirements. No decision has yet been made whether to deny or to pay the claim.
- The incurred but not reported claims amounted ₱62,400,069 in 2014 and ₱46,493,154 in 2013. These are claims reported beyond the reporting date whose date of claim happened three months before the

reporting date. For 2014, claims reported in the months of November 2014, December 2014 and January 2015 whose date of death/claim is before November 1, 2014 are included in this category.

**Note 13**

**Trade and Other Payables**

This account consists of the following breakdowns:

| <i>December 31</i>                    | <b>2014</b>         | 2013        |
|---------------------------------------|---------------------|-------------|
| Accounts payable and accrued expenses | <b>₱98,022,456</b>  | ₱55,045,859 |
| Endowment trust fund                  | <b>18,302,221</b>   | 15,331,131  |
| Rental deposits                       | <b>375,330</b>      | 362,850     |
|                                       | <b>₱116,700,007</b> | ₱70,739,840 |

Accounts payable and accrued expenses in 2014 include various payables amounting ₱12,554,339; payable to collection agents amounting ₱4,658,392; premium deposits and accrued expenses aggregating ₱3,814,499. The accounts also include trust fund amounting ₱63,750,000 intended for the organization of CLIMBS Mutual Fund, Inc., which the Group is presently pursuing. In 2013, the accounts payable and accrued expenses include various payables amounting ₱29,951,319, payable to collection agents amounting ₱12,224,559, premium deposits and accrued expenses aggregating ₱20,238,741.

The Endowment Trust Fund represents the contributions of 60 member-cooperatives intended to finance the operations of CLIMBS Institute of Financial Literacy, an institute established by CLIMBS in 2012 dedicated to respond to the training needs of members.

**Note 14**

**Share Capital**

This consists of the following breakdowns:

| <i>December 31</i>   | <b>2014</b>         | 2013         |
|--|---------------------|--------------|
| <b>Preferred Shares – ₱1,000 Par Value</b>                 |                     |              |
| Authorized – 200,000 shares                                |                     |              |
| Issued – shares in 2014 90,996 and 80,906 shares in 2013   | <b>₱90,996,000</b>  | ₱80,906,000  |
| <b>Common Shares – ₱1,000 Par Value</b>                    |                     |              |
| Authorized – 500,000 shares                                |                     |              |
| Issued – shares in 2014 339,148 and 248,568 shares in 2013 | <b>339,148,000</b>  | 248,568,000  |
| <b>Treasury Stocks</b>                                     | <b>(5,317,966)</b>  | –            |
| <b>Deposits for future subscriptions</b>                   | <b>630</b>          | 1,008        |
|  | <b>₱424,826,664</b> | ₱329,475,008 |

At the end of 2014, there are 627 holders of preferred shares and 2,203 holders of common shares. In 2013, there were 627 holders of preferred shares and 2,075 holders of common shares. The weighted average number of common shares is computed at 301,008 in 2014 and 210,172 in 2013.

The Group is in compliance with the fixed capitalization requirements of the Insurance Commission in 2014 and 2013. (See Note 24).

**Note 15**  
**Surplus Reserves**

In order to respond to the requirements of the Insurance Commission for minimum statutory net worth, the Group established, beginning 2012, the Surplus Reserves (unencumbered reserves) funded from 10% share in the profit for the year.

In 2013, besides its share of the profit for the year, the Surplus Reserve was increased by ₱340,170,180, representing the reclassification of the excess amount of aggregate reserve for life policies. (See Note 12.)

**Note 16**  
**Statutory Reserves**

The statutory reserves of the Group consist of the following:

| <i>December 31</i>                      | <b>2014</b>        | 2013        |
|---|--------------------|-------------|
| General reserve fund                    | <b>₱40,913,637</b> | ₱30,410,313 |
| Cooperative education and training fund | <b>15,539,711</b>  | 11,143,877  |
| Optional (land and building fund)       | <b>29,903,534</b>  | 22,551,207  |
| Social development fund                 | <b>7,065,468</b>   | 4,398,510   |
|   | <b>₱93,422,350</b> | ₱68,503,907 |

The movements of the accounts during 2014 and 2013 are as follows:

|                                 | <i>Opening Bal.</i> | <i>Dist. of income</i> | <i>Collections</i> | <i>Disbursements</i> | <i>Closing Bal.</i> |
|---------------------------------|---------------------|------------------------|--------------------|----------------------|---------------------|
| <i>December 31, 2014</i>        |                     |                        |                    |                      |                     |
| General Reserve Fund            | ₱30,410,313         | ₱10,503,324            |                    |                      | ₱40,913,637         |
| Coop. Education & Training Fund | 11,143,877          | 10,503,324             |                    | (₱6,107,490)         | 15,539,711          |
| Optional fund (Land and Bldg.)  | 22,551,207          | 7,352,327              |                    |                      | 29,903,534          |
| Social Development Fund         | 4,398,510           | 3,150,997              |                    | (484,039)            | 7,065,468           |
|                                 | ₱68,503,907         | ₱31,509,972            |                    | (₱6,591,529)         | ₱93,422,350         |
| <i>December 31, 2013</i>        |                     |                        |                    |                      |                     |
| General Reserve Fund            | ₱25,356,457         | ₱7,203,474             |                    | (₱2,149,618)         | ₱30,410,313         |
| Coop. Education & Training Fund | 9,283,504           | 7,203,474              |                    | (5,343,101)          | 11,143,877          |
| Optional fund (Land and Bldg.)  | 13,676,153          | 5,042,431              | ₱3,832,623         |                      | 22,551,207          |
| Social Development Fund         | 2,881,798           | 2,161,042              |                    | (644,330)            | 4,398,510           |
|                                 | ₱51,197,912         | ₱21,610,421            | ₱3,832,623         | (₱8,137,049)         | ₱68,503,907         |

**Note 17**  
**Segmental Results of Operations**

The Group's segmental income and expenses in 2014 are as follows:

(Please see table next page.)

| <i>Year Ended December 31, 2014</i>    | <i>Life</i>         | <i>Non-Life</i>      | <i>Agency</i>      | <i>Total</i>         |
|--|---------------------|----------------------|--------------------|----------------------|
| <b>Revenue</b>                         |                     |                      |                    |                      |
| Premiums on insurance contracts – net  | ₱807,875,733        | ₱108,425,780         |                    | <b>₱916,301,513</b>  |
| Investment income                      | 50,830,617          | 5,182,522            |                    | <b>56,013,139</b>    |
| Commissions/ underwriting income       | –                   | 2,128,005            | ₱37,582,012        | <b>39,710,017</b>    |
| Other income                           | 2,597,463           | –                    | 748,552            | <b>3,346,015</b>     |
|  | <b>₱861,303,813</b> | <b>115,736,307</b>   | <b>38,330,564</b>  | <b>1,015,370,684</b> |
| <b>Expenses</b>                        |                     |                      |                    |                      |
| Net benefits paid                      | 391,133,351         | 121,968,528          |                    | <b>513,101,879</b>   |
| Collection costs                       | 232,044,081         | 39,989,558           | 10,722,203         | <b>282,755,842</b>   |
| General and administrative expenses    | 41,678,133          | 13,595,923           | 6,408,110          | <b>61,682,166</b>    |
| Salaries, wages and employees benefits | 32,409,452          | 4,453,479            | 3,975,782          | <b>40,838,713</b>    |
| Depreciation                           | 10,464,575          | 585,562              | 908,708            | <b>11,958,845</b>    |
|  | <b>707,729,592</b>  | <b>180,593,050</b>   | <b>22,014,803</b>  | <b>910,337,445</b>   |
| <b>Profit for the Year</b>             | <b>₱153,574,221</b> | <b>(₱64,856,743)</b> | <b>₱16,315,761</b> | <b>₱105,033,239</b>  |

The Group's segmental income and expenses in 2013 are as follows:

| <i>Year Ended December 31, 2013</i>    | <i>Life</i>        | <i>Non-Life</i>    | <i>Agency</i>     | <i>Total</i>        |
|--|--------------------|--------------------|-------------------|---------------------|
| <b>Revenue</b>                         |                    |                    |                   |                     |
| Premiums on insurance contracts – net  | ₱745,175,514       | ₱114,855,436       |                   | <b>₱860,030,950</b> |
| Investment income                      | 27,252,644         | 2,801,646          |                   | <b>30,054,290</b>   |
| Commissions/ underwriting income       | –                  | 1,785,794          | ₱26,999,664       | <b>28,785,458</b>   |
| Other income                           | 3,859,811          | 320,984            | 668,239           | <b>4,849,034</b>    |
|  | <b>776,287,969</b> | <b>119,763,860</b> | <b>27,667,903</b> | <b>923,719,732</b>  |
| <b>Expenses</b>                        |                    |                    |                   |                     |
| Net benefits paid                      | 442,970,674        | 72,496,304         | –                 | <b>515,466,978</b>  |
| Collection costs                       | 210,908,470        | 32,694,651         | 6,613,684         | <b>250,216,805</b>  |
| General and administrative expenses    | 32,514,230         | 9,513,626          | 6,038,402         | <b>48,066,258</b>   |
| Salaries, wages and employees benefits | 21,916,429         | 3,789,543          | 4,729,869         | <b>30,435,841</b>   |
| Depreciation                           | 6,462,527          | 463,729            | 572,858           | <b>7,499,114</b>    |
|  | <b>714,772,330</b> | <b>118,957,853</b> | <b>17,954,813</b> | <b>851,684,996</b>  |
| <b>Profit for the Year</b>             | <b>₱61,515,639</b> | <b>₱806,007</b>    | <b>₱9,713,090</b> | <b>₱72,034,736</b>  |

## **Note 18**

### **Details of General and Administrative Expenses**

| <i>Years Ended December 31</i>                                | <b>2014</b>        | <b>2013</b> |
|---|--------------------|-------------|
| General support services                                      | <b>₱13,903,267</b> | ₱13,711,933 |
| Travel and transportation                                     | <b>9,811,169</b>   | 6,044,196   |
| Provision for probable losses on premiums receivable (Note 5) | <b>9,000,000</b>   | 6,387,275   |
| Meetings, conferences and general assembly                    | <b>7,136,913</b>   | 6,000,794   |
| Promotions and networking                                     | <b>5,202,397</b>   | 5,339,962   |
| Materials and supplies  | <b>4,003,756</b>   | 3,002,087   |
| Communications  | <b>2,571,347</b>   | 1,913,245   |
| Rent(Note 9)  | <b>2,533,269</b>   | 1,604,325   |
| Light and power   | <b>2,124,408</b>   | 1,334,608   |
| (Carried Forward.)  |                    |             |

(Brought Forward.)

| <i>Years Ended December 31</i>                   | 2014               | 2013               |
|--|--------------------|--------------------|
| Repairs and maintenance                          | 1,883,152          | 1,046,527          |
| Amortization of losses on deposits (Note 11)     | 805,338            | –                  |
| Realized loss on sale of AFS securities (Note 7) | 602,198            | –                  |
| Insurance  | 530,540            | 385,888            |
| License fees and membership dues                 | 397,553            | 255,819            |
| Loss on retirement on disposal of PPE (Note 9)   | 346,357            | –                  |
| Amortization of computerization costs (Note 11)  | 191,548            | 191,548            |
| Bank charges                                     | 49,270             | 55,712             |
| Miscellaneous                                    | 589,684            | 792,339            |
|  | <b>₱61,682,166</b> | <b>₱48,066,258</b> |

**Note 19**

**Details of Salaries, Wages and Officers' and Employees' Benefits**

| <i>Years Ended December 31</i>               | 2014               | 2013               |
|--|--------------------|--------------------|
| Salaries and wages                           | ₱25,378,741        | ₱23,181,610        |
| Uniforms and other employees' benefits       | 11,734,793         | 3,557,683          |
| Retirement contributions (Note 11)           | 1,862,964          | 2,245,910          |
| SSS, PHIC and HDMF counterpart contributions | 1,862,215          | 1,450,638          |
|  | <b>₱40,838,713</b> | <b>₱30,435,841</b> |

**Note 20**

**Distribution of Net Income**

Accounting of Distributable Profit:

| <i>Years Ended December 31</i>                | 2014                | 2013               |
|---|---------------------|--------------------|
| Profit for the year of Parent Cooperative     | ₱88,717,478         | ₱62,321,646        |
| Profit for the year of Subsidiary Cooperative | 16,315,761          | 9,713,090          |
| Distributable Profit                          | <b>₱105,033,239</b> | <b>₱72,034,736</b> |

Distribution of Distributable Profit

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

| <i>Years Ended December 31</i>                             | 2014                | 2013               |
|--|---------------------|--------------------|
| General reserve fund (10%)                                 | ₱10,503,324         | ₱7,203,474         |
| Coop. Education and training fund (10%)                    | 10,503,324          | 7,203,474          |
| Land & building fund (7%)                                  | 7,352,327           | 5,042,431          |
| Community development fund (3%)                            | 3,150,997           | 2,161,042          |
| Surplus Reserves (10%)                                     | 10,503,324          | 7,203,474          |
| Interest on capital, experience and patronage refund (60%) | 63,019,943          | 43,220,841         |
|  | <b>₱105,033,239</b> | <b>₱72,034,736</b> |

The Executive Committee of the Board of Directors of the Parent Cooperative approved to distribute the 2014 and 2013 net income after providing for statutory reserves, as follows:

| <i>Years Ended December 31</i>         | <b>2014</b>        | <b>%</b>      | <b>2013</b> | <b>%</b> |
|--|--------------------|---------------|-------------|----------|
| Dividends for common shares            | <b>₱30,100,840</b> | <b>47.74</b>  | ₱21,017,167 | 48.63    |
| Dividends for preferred shares amount) | <b>5,049,192</b>   | <b>8.01</b>   | 4,646,240   | 10.75    |
| Patronage refund                       | <b>14,325,217</b>  | <b>22.76</b>  | 8,913,266   | 20.62    |
| Experience refund                      | <b>13,544,694</b>  | <b>21.48</b>  | 8,644,168   | 20.00    |
|  | <b>₱63,019,943</b> | <b>100.00</b> | ₱43,220,841 | 100.00   |

The experience refund to members represents additional incentives to be distributed as 100% based on net premiums after deducting the claims and necessary reserves.

**Note 21**  
**Earnings per Common Share**

| <i>Years Ended December 31</i>                            | <b>2014</b>        | <b>2013</b> |
|---|--------------------|-------------|
| Net income allotted for interest on capital               | <b>₱30,100,840</b> | ₱21,017,167 |
| Weighted Average Number of Common Shares <i>(Note 14)</i> | <b>301,008</b>     | 210,172     |
| Earnings Per Common Share                                 | <b>₱100</b>        | ₱100.00     |

**Note 22**  
**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. The volume of transactions from the top five (5) member-cooperatives amounted to ₱348,367,759 in 2014 and ₱342,075,559 in 2013.
- b. The Group also extends advances subject to liquidation to its officers and employees. Total advances to officers and employees amounted to ₱393,762 in 2014 and ₱1,466,619 in 2013.
- c. The key management compensation consists of the following:

| <i>Years Ended December 31</i> | <b>2014</b>       | <b>2013</b>       |
|--------------------------------|-------------------|-------------------|
| Salaries and allowances        | <b>₱2,117,143</b> | <b>₱3,987,748</b> |
| Other benefits                 | <b>1,238,550</b>  | <b>2,145,013</b>  |
|                                | <b>₱3,355,693</b> | <b>₱6,132,761</b> |

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.



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**Note 23**

**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 the following risks:

- Insurance Risk

Insurance risk is 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 Alpha Insurance, Malayan Insurance Charter Ping-an Insurance, Stronghold Insurance, and Paramount Life and General Insurance, 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.
- Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below that required to meet future policy liabilities. To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality. The Group uses asset-liability matching as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Group may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.
- Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geographical locations, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria.
- Financial Risk

The Group is also exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance 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. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. 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, 2014, the Group's financial assets are composed of the following:

| <i>December 31, 2014</i>            | <i>Neither Past Due<br/>Nor Impaired</i> | <i>Past Due But<br/>Not Impaired</i> | <i>Total</i>          |
|-------------------------------------|--|--------------------------------------|-----------------------|
| Cash and cash equivalents           | ₱380,536,463                             | –                                    | <b>₱380,536,463</b>   |
| Insurance receivables               | 30,841,756                               | –                                    | <b>30,841,756</b>     |
| Held-to-maturity investments        | 706,500,247                              | –                                    | <b>706,500,247</b>    |
| Available-for-sale financial assets | 381,091,976                              | –                                    | <b>381,091,976</b>    |
| Loans and receivable                | 9,967,119                                | –                                    | <b>9,967,119</b>      |
|                                     | <b>₱1,508,937,561</b>                    | <b>₱–</b>                            | <b>₱1,508,937,561</b> |
|                                     | 100.00%                                  | –                                    | 100.00%               |

Maturity Analysis of Assets and Liabilities

| <i>December 31, 2014</i>                         | <i>Within One Year</i> | <i>Beyond One Year</i> | <i>Total</i>          |
|--|------------------------|------------------------|-----------------------|
| <u>Financial Assets</u>                          |                        |                        |                       |
| Cash and cash equivalents (Note 4)               | ₱380,536,463           |                        | <b>₱380,536,463</b>   |
| Insurance receivables (Note 5)                   | 21,589,229             | ₱9,252,527             | <b>30,841,756</b>     |
| Held-to-maturity investments (Note 6)            | 111,536,118            | 594,964,129            | <b>706,500,247</b>    |
| Available-for-sale securities (Note 7)           | 381,091,976            |                        | <b>381,091,976</b>    |
| Loans and receivables (Note 8)                   | 5,980,271              | 3,986,848              | <b>9,967,119</b>      |
| <u>Nonfinancial Assets</u>                       |                        |                        |                       |
| Property and equipment (Note 9)                  |                        | 84,200,014             | <b>84,200,014</b>     |
| Investment property (Note 10)                    |                        | 40,948,203             | <b>40,948,203</b>     |
| Other assets (Note 11)                           | 7,180,016              | 3,039,795              | <b>10,219,811</b>     |
| <b>Total Assets</b>                              | <b>₱907,914,073</b>    | <b>₱736,391,516</b>    | <b>₱1,644,305,589</b> |
| <u>Financial Liabilities</u>                     |                        |                        |                       |
| Insurance contract liabilities (Note 12)         | ₱376,931,597           |                        | <b>₱376,931,597</b>   |
| Insurance payables (Note 12)                     | 204,707,092            |                        | <b>204,707,092</b>    |
| Trade and other payables (Note 13)               | 116,700,007            |                        | <b>116,700,007</b>    |
| Interest on cap., patmg/exp refund pay (Note 20) | 63,019,943             |                        | <b>63,019,943</b>     |
| <u>Nonfinancial Liabilities</u>                  |                        |                        |                       |
| <b>Total Liabilities</b>                         | <b>₱761,358,639</b>    | <b>₱–</b>              | <b>₱761,358,639</b>   |
| <u>December 31, 2013</u>                         |                        |                        |                       |
| <u>Financial Assets</u>                          |                        |                        |                       |
| Cash and cash equivalents (Note 4)               | ₱339,157,482           |                        | <b>₱339,157,482</b>   |
| Insurance receivables (Note 5)                   | 36,174,071             | ₱15,503,174            | <b>51,677,245</b>     |
| Held-to-maturity investments (Note 6)            | 228,397,442            | 487,092,936            | <b>715,490,378</b>    |
| Available-for-sale securities (Note 7)           | 194,333,747            |                        | <b>194,333,747</b>    |
| Loans and receivables (Note 8)                   | 9,740,854              | 6,493,902              | <b>16,234,756</b>     |
| <u>Nonfinancial Assets</u>                       |                        |                        |                       |
| Property and equipment (Note 9)                  |                        | 70,825,215             | <b>70,825,215</b>     |
| Investment property (Note 10)                    |                        | 41,275,259             | <b>41,275,259</b>     |
| Other assets (Note 11)                           | 6,390,012              | 3,702,512              | <b>10,092,524</b>     |
| <b>Total Assets</b>                              | <b>₱814,193,608</b>    | <b>₱624,892,998</b>    | <b>₱1,439,086,606</b> |
| <u>Financial Liabilities</u>                     |                        |                        |                       |
| Insurance contract liabilities (Note 12)         | ₱331,748,686           |                        | <b>₱331,748,686</b>   |
| Insurance payables (Note 12)                     | 243,590,288            |                        | <b>243,590,288</b>    |
| Trade and other payables (Note 13)               | 70,739,840             |                        | <b>70,739,840</b>     |
| Interest on cap., patmg/exp refund pay (Note 20) | 43,220,841             |                        | <b>43,220,841</b>     |
| <u>Nonfinancial Liabilities</u>                  |                        |                        |                       |
| <b>Total Liabilities</b>                         | <b>₱689,299,655</b>    | <b>₱–</b>              | <b>₱689,299,655</b>   |

- Credit risk  
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The following policies and procedures are in place to mitigate the Group's exposure to credit risk: (a) Net exposure limits are set for each counterparty or group of counterparties and industry segment (i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held). (b) Guidelines are provided to determine when to obtain collateral and guarantees. (c) The maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings are also set.
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#### **Note 24**

##### **Capital Management**

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.

##### Margin of Solvency

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.

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 and 2011 as the basis for 2012. The Advisory of the Insurance Commission dated November 22, 2012, reiterated this matter. As of December 31, 2012, the required minimum statutory net worth and minimum paid-up capital required of the Cooperative, being a wholly Filipino-owned domestic insurance company, is ₱500 million and ₱250 million, respectively. Subsequently, the required minimum paid-up capital is based on the Department of Finance Department Order No. 15-2012, issued on June 1, 2012, which established the minimum paid-up capital (PUC) requirements of all insurance and professional reinsurance companies doing business in the Philippines.

In accordance with DO No. 15-202, an existing or licensed life or nonlife insurance company must have a PUC in accordance with the amounts and schedule of compliance as follows:

| <i>Paid-Up Capital</i> | <i>Compliance Date</i>  |
|------------------------|---|
| ₱250 Million           | On or before December 31, 2012 <i>(Per DO No.27-06 and IMC No. 10-2006)</i> |
| ₱400 Million           | On or before December 31, 2014  |
| ₱600 Million           | On or before December 31, 2016  |
| ₱800 Million           | On or before December 31, 2018  |
| ₱1 Billion             | On or before December 31, 2020  |

On August 15, 2013, the Congress of the Philippines approved Republic Act No. 10607 “An Act Strengthening the Insurance Industry, Further Amending Presidential Decree No. 612, Otherwise Known as “The Insurance Code”, as Amended by Presidential Decrees Nos. 1141, 1280, 1455, 1460, 1814, and 1981, and Batas Pambansa Blg. 874, and for Other Purposes”, which superseded DO No. 15-2012, and which requires domestic life and non-life insurance companies engaged in business in the Philippines to possess paid-up capital of at least ₱1.0 billion. For domestic insurance companies already doing business in the Philippines, the law requires them to have a net worth ‘by June 30, 2013 of Two Hundred Fifty Million Pesos (₱250,000,000). Furthermore, said company must have by December 31, 2016, an additional Three Hundred Million Pesos (₱300,000,000) in net worth; by December 31, 2019, an additional Three Hundred Fifty Million Pesos (₱350,000,000) in net worth; and by December 31, 2022, an additional Four Hundred Million Pesos (₱400,000,000) in net worth.’

In accordance with Chapter XIII – Insurance Cooperative, Article 107, of Republic Act No. 9520, “An Act Amending the Cooperative Code of the Philippines to be Known as the “Philippine Cooperative Code of 2008”, “the requirements on capitalization, investments and reserves of insurance firms may be liberally modified upon consultation with the Cooperative Development Authority and the cooperative sector. But in no case may the requirements be reduced to less than half of those provided for under the Insurance Code and other related laws.” R.A. 10607 however has not addressed this matter.

At the end of 2014, the Group’s paid-up capital amounted ₱424,826,664, an amount more than the requirement of R.A. 10607 for paid-up capital on or before December 31, 2014.

#### 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 can be determined only after considering the admitted value of certain financial statement accounts and these are normally determined after the examination of the Insurance Commission.

#### 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.

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**Note 25**  
**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.

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**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, 2014, were authorized for issue by management on April 9, 2015.

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**Note 28**  
**Details of Taxes, Licenses and Fees**

In accordance with the supplementary information required under Revenue Regulations No. 15-2010, the Group discloses the following:

| <i>Years Ended December 31</i>    | <b>2014</b>       | <b>2013</b> |
|-----------------------------------|-------------------|-------------|
| Withholding taxes on compensation | <b>₱3,558,645</b> | ₱3,081,711  |
| Expanded                          | <b>3,245,381</b>  | 2,806,983   |
|                                   | <b>₱6,804,026</b> | ₱5,888,694  |

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# CLIMBS

Life and General Insurance Cooperative

**43<sup>rd</sup>**

## ANNUAL GENERAL ASSEMBLY

APRIL 24-25 WATERFRONT HOTEL & CASINO, SALINAS DRIVE, LAHUG CEBU CITY

### Book Launching & Educational/Business Forum

### Cooperator's Night

### Assembly Proper

#### PROGRAMME

8:00 AM - Registration

10:00 AM - Book Launching: "CLIMBS Amazing Saga"

Special Guest:

Mr. Bob Bare

President, M&A Publishing

1:00 PM - Educational/Business Forum

"Prizes are at stake for participants"

To be conducted by:

Mr. Efren Cruz, RFP - CEO

Personal Finance Advisers Philippines Corp.

Mr. Marvin Fausto - Founding President

Fund Managers Association of the Philippines

4:00 PM - Awarding Ceremonies

#### PROGRAMME

6:00 PM - DINNER

7:00 PM - COOPERATOR'S NIGHT

Welcome Address : Mr. Fermin L. Gonzales  
President & CEO

Opening Remarks : MGen. Gilbert S. Llanto (Ret.)  
Vice Chairperson of the Board

Introduction of Participating Cooperative Members

Luzon Ms. Lilian D. Silubrico  
Holy Cross Savings & Credit Coop

Visayas Ms. Wilma P. Salas  
Maripipi MPC

Mindanao Engr. Albert M. Omega  
Tagum Cooperative

Solidarity Message :  
Hon Orlando R. Ravanera  
CDA Chairman

Introduction to the Guest Speaker :  
Mr. Mecos Pacana

Keynote Speech : Mr. Bob Bare  
President, M & A Publishing

#### PROGRAMME

6:30 AM - BREAKFAST

7:30 AM - HOLY MASS

8:30 AM - Short Program

Invocation Video Streaming  
National Anthem Video Streaming  
CLIMBS Hymn Video Streaming

Welcome Remarks  
Judge Esperanza F. Garcia (Ret.)  
Chairperson of the Board

Inspirational Video Message  
Mr. Shaun Tarbuck  
Chief Executive Officer  
International Cooperative Mutual Insurance Federation

Solidarity Message  
Mr. Ferdinand George A. Florendo  
Deputy Insurance Commissioner for Financial Examination  
Insurance Commission

Introduction to the Keynote Speaker  
Judge Teresita A. Galanida

Keynote Speaker  
Hon. Pablo P. Garcia  
Former Deputy Speaker - House of Representative

10:00 AM - ASSEMBLY PROPER

1. Roll Call
2. Proof of Due Notice
3. Determination of Quorum
4. Consideration of the Previous Minutes
5. Board of Directors and Management Report
6. Consideration of Resolution, Recommendations & New Business
7. Election of Board of Directors, AIC, Election & Conciliation Committee
8. Adjournment

12:30 PM - LUNCH



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# Directory of Offices and Branches

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CLIMBS Bldg., Zone 5, Upper Bulua, Natl. Highway,  
Brgy. Bulua, Cagayan de Oro City  
Trunk Line (08822)738.738 / (088)856.1355  
E-mail: head\_office@climbs.coop  
climbscompany@yahoo.com  
Website: www.climbs.coop

## NATIONAL

### MARKETING OFFICE

4/F CLIMBS Bldg., Tiano-Pacana St.  
Cagayan de Oro City  
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E-mail: marketing@climbs.coop

## GENERAL AGENCY

### Mr. Henry Lopez

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## VISAYAS AREA

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### Mr. Roldan Jess J. Navalta

Sales Development Specialist-Reg.1 & Part of CAR

### Ms. Corine Joy S. Tapo

Sales Development Specialist-Reg.2 & Part of CAR

## NAGA AREA OFFICE

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### Mr. Isaac B. Miranda

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### Mr. Armando C. Magno

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E-mail: dear\_ayen@yahoo.com.ph

## LINKAGES

Asia Oceana Association – Website: www.aoc-icmif.org  
International Cooperative Mutual Insurance Federation – Website: www.icmif.org  
Cooperative Development Authority – Website: www.cda.gov.ph  
Insurance Commission – Website: www.insurance.gov.ph  
National Confederation of Cooperatives(NATCCO) – Website: www.natcco.coop  
Mass-Specc Cooperative Development Center – Website: www.mass-specc.coop  
National Federation and Confederation of Cooperatives in the Philippines

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Website: http://www.plia.org.ph  
Philippine Chamber of Commerce  
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Philippine Insurer & Reinsurers Association  
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