CLIMBS

SINCE 1971

CLIMBS Life and General Insurance Cooperative

"The Grassroots Insurance"

CLIMBS Complete Financial Solution for Inclusive Growth

(Life & Non-Life Insurance, CLIFSA, CLIMBS Institute, and Mutual Fund Corporation)

45th Annual General Assembly

SMX Convention Center, SM Lanang Premier
J.P. Laurel Ave., Davao City (April 22 - 23, 2017)

Annual Report 2016

Schedule of Activities

April 22, 2017 (Saturday)
SMX Convention Center
Dress Code: Business Casual with a touch of Blue

Time	Activity
1:00PM	Registration
3:00PM	CLIMBS Institute Partners Assembly
5:00PM	Dinner
6:00PM	Preliminaries
6:30PM	Awards Proper
	Guest Performance: Mitch Valdes
8:00PM	Fellowship and Cooperators' Night

April 23, 2017 (Sunday)
SMX Convention Center
Dress Code: Business Casual or GA Polo Shirt

6:00 AM **Registration**

8:00AM **Business Forum**

Invocation
National Anthem

8:05AM Opening Remarks
Mr. Fermin L. Gonzales
President and CEO

8:10AM Inspirational Message
Hon. Orlando R. Ravanera
Chairman
Cooperative Development Authority

8:30AM Introduction of Guest Speaker
Hon. Ferdinand George A. Florendo
Deputy Commissioner for Financial Examination
Insurance Commission

8:45AM Speech of Guest Speaker
Hon. Dennis B. Funa
Commissioner
Insurance Commission

9:15AM CLIMBS Update and Recommendation
Mr. Fermin L. Gonzales
President and CEO

CIMAC / Mutual Fund Update
Mr. Efren Ll. Cruz
Adviser

Open Forum
Raffles

10:00AM **Mass**

Most Honored Bishop
Bishop George B. Rimando, D.D.
Auxiliary Bishop of Davao

11:30AM **Lunch Break**

12:45NN **General Assembly Preliminaries**

Invocation
Ms. Monica L. Salido
Member of the Board of Directors

National Anthem
Cooperative Pledge
CLIMBS Hymn
Opening Number

1:00PM Welcome Remarks
Hon. Sara Duterte-Carpio
Mayor of Davao City

Introduction of Keynote Speaker
Hon. Jesus G. Dureza
Presidential Adviser on the Peace Process of the Philippines

Keynote Speech
His Excellency Rodrigo Roa Duterte
President
Republic of the Philippines

General Assembly Proper
Election Proper
Raffles
Closing Presentation
End of 2017 General Assembly

Table of Contents

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

CN: AJA16-0061

CONGRATULATORY MESSAGE
(CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE)

20 March 2017

With great pleasure, I congratulate CLIMBS Life and General Insurance Cooperative for serving as the symbol of mutual protection for forty-six (46) years. In 1971, CLIMBS was organized to provide mutual protection to cooperative members that include low income farmers, fishermen, employees and laborers who cannot afford or do not have easy access to insurance production offered by commercial insurers. From its humble beginnings, CLIMBS evolved and now caters to the insurance needs of more than eight hundred (800) cooperatives translating to coverage of more than One (1) Million people.

Through the years, CLIMBS became a vital partner of the Commission not only because of the products they offer, but also more importantly because of its advocacy to promote financial inclusion. As one of the leading cooperative insurance firms in the country, CLIMBS has consistently adopted best practices of emerging markets in Asia and integrated the same in the way it conducts business. All these efforts had resulted to CLIMBS continuing to offer and render quality financial services, for more than four (4) decades, with excellence, fairness, transparency and accountability.

As we traverse through a phase where there is a need to advance the developments of our infrastructure, the insurance industry must find ways to utilize its capital in ways that would not only ensure a high return in investments, but also more importantly to further our country's national interests. As the Commission currently explores the formulation of an operational framework wherein insurance funds may be used to finance public-private partnership projects (PPPs), we expect the industry leaders to support the Commission's initiative.

With respect to financial inclusion as the Commission is continuously reviewing the microinsurance frameworks and other programs to ensure disaster risk resiliency, we expect that insurers continue to provide affordable and accessible microinsurance products to the insuring public. As CLIMBS is at the forefront of the insurance industry, we expect no less that its full support and creative inputs on how to help the Commission realize its dreams, and continue to serve as "the leading cooperative insurance firm in the country."

Once again, congratulations to you all.

DENNIS B. FUNA
Insurance Commissioner

Head Office; P.O. Box 3589 Manila FAX No. 522-14-34 Tel. Nos. 523-84-61 to 70 Website: www.insurance.gov.ph

Office of the President of the Philippines
COOPERATIVE DEVELOPMENT AUTHORITY

http://www.cda.gov.ph chairman@cda.gov.ph Philippine Cooperators Page @CDAPhils

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

Message

Felicitations to CLIMBS Life and General Insurance Cooperative on the occasion of your 45th Annual General Assembly.

Empowerment is the call of the times because when people are empowered, it will give way to social restructuring. That looming structure called cooperativism is now considered the people's preferred development model as the cooperatives are now seen globally as the acknowledged leaders in the economic, social and ecological sustainability.

In essence, what cooperatives now are advancing is a kind of development that is holistic, pro-people, community-based and with a popular participation. It is an approach that puts man at the center and in the mainstream of the processes. These are well-pronounced in the principles we live by.

It has been said that the past or the present does not shape the future; your vision does coupled with the single-minded determination to work for it and put it to reality. Mere intention alone creates its own energy, how much more if it is pursued with a strong will.

CLIMBS Life and General Insurance Cooperative has shown the way on what a cooperative should be. Its accomplishments are the concrete and tangible manifestations of the driving forces that are in the realm of the intangibles. The good governance exemplified by its Board of Directors, the industry and innovativeness poured-in by its management and the values of cooperation and participation of its members are the pillars of its strength in the long and arduous journey towards making life better for the people. Innovativeness coupled with industry, good governance and cooperation from members are the values that have catapulted the cooperative to achieve an indelible mark of success.

More power and kudos to CLIMBS Life and General Insurance Cooperative!

ORLANDO R. RAVANERA
Chairman

Chairperson's Message

I would like to express my deepest gratitude for your support and loyalty to CLIMBS for the past 45 years. Our unwavering commitment to our values and principles fostered unity among us cooperators which is our greatest asset and constant contribution to the strengthened sustainability of our varied programs and services to our esteemed members.

Over the years, I have seen the operational improvements as well as the intense activities that forged our status as a leading player in the provision of social protection to the cooperative movement. Looking back, I feel honoured and privileged to being a part of the wonderful journey, successful cooperative developments and aspirations of my dearly beloved wife who was our former chairperson: "Ma'am Inday" as you fondly call her. Her tenacity and great pleasure in transforming the challenges and business opportunities into strategic performance for all our stakeholders and partners making all of those a part of her precious legacy. She is indeed a veritable force and champion of the aspirations and dreams that has been realized and continuous to make a mighty force of the new millennium. She saw to it that the critical funds needed for CLIMBS' incorporation as an insurance cooperative was infused thereby making CLIMBS a full-fledged insurance institution able to make a dent in the market, filling in a niche for the grassroots who have always been left out by the commercial players of the industry. This is just one of the pivotal decisions that catapulted CLIMBS to where it is now.

Hence, I just could not help but feel proud and excited to pitch in and share in the undertakings, picking up from where she left. She is and will always be my inspiration in the pursuit of a daunting challenge for me to at least match her sterling performance.

Today, we are moving forward from a solid foundation as well as strategically sound position, fully backed by a balanced score card to further enhance and bring forth our dedicated commitment expressed through excellent product and service delivery as we likewise set a new baseline in our unrelenting pursuit of sustainable increases for our economic, social and environmental progress not only for CLIMBS but for the welfare and benefit of all our stakeholders, allies and cooperative partners.

This year's General Assembly theme "CLIMBS Complete Financial Solution for Inclusive Growth (Life, Non-Life, Health Care, Pre-Need, Life Plan, Mutual Fund and Financial Literacy)" shall affirm and enshrine our oneness in the belief towards a unified action for the inclusive growth we all aspire to realize as we rally forth our efforts towards the achievement of all these. We will pursue our current undertakings in order to ensure that we get to where we want to be in the years to come, assuring a potent force and industry of diversified establishments under the same brand of quality and stamp: CLIMBS!

In unity there is growth and development!

ATTY. PABLO PARAS GARCIA
CHAIRMAN OF THE BOARD

President & CEO's Message

My warmest greetings and welcome to all partners, stakeholders and members of CLIMBS Life and General Insurance Cooperative to our 45th Annual General Assembly.

This year's General Assembly theme is focused on "CLIMBS Complete Financial Solution for Inclusive Growth (Life, Non-Life, Health Care, Life Plan, Mutual Fund and Financial Literacy) that seeks to further our Cooperative's business model evolution from protection to managing and investing.

We are working hard to generate a new growth spurt for CLIMBS by enhancing our expertise through the re-engineering of our structures, decentralizing our operations, and ensuring that services are provided direct to our members on a timely manner. Our sales and marketing strategies shifted focus to business segments with the greatest potential, raising the value of our subsidiaries and affiliates.

Apparently, CLIMBS continue to deliver its utmost service with the unswerving support from among our cooperators and partners. We have dedicated services designed to reach the lower levels of the countryside, and the disadvantaged groups in every barangay so that they are provided with the family insurance protection, to further strengthen our services through our Corporate Social Responsibility (CSR) forging a humane approach throughout the country.

As we advance to more successful years ahead, CLIMBS is geard for some big moves in 2017. This would mean bolder initiatives coupled with a strong determination and persistence as well as enduring goodwill. CLIMBS has always risen to so many challenges even as we celebrate the 45th year of our existence. We look forward to more fruitful years ahead for all of us.

We likewise thank our members, our Board of Directors, Committees, Management and Staff for their commitment and dedication. But above all, to our Almighty God for all the blessings.

Fermin L. Gonzales
President and CEO

2016 BOARD OF DIRECTORS

CHAIRPERSON

Atty. Pablo P. Garcia
Cebu CFI Community Cooperative

VICE CHAIRPERSON

MGen. Gilbert S. Llanto(Ret.)
ACDI Multi-Purpose Cooperative

BOARD OF DIRECTORS

Mr. Mansueto V. Dela Peña
Oro Integrated Cooperative

Ms. Elvira S. Dandan
San Dionisio Credit Cooperative

Dr. Rhodora S.N. Englis
MSU IIT National MPC

Ms. Sarah T. Agner
PHCCI Tacloban

Atty. Antonio Manuel A. Alcantara
PHCCI Dumaguete

Mr. Edgardo G. Amoronio
Sta. Catalina Credit Cooperative

Ms. Monica L. Salido, M.M.
Tagum Cooperative

INDEPENDENT DIRECTORS

Ms. Lillian D. Silubrico
Holy Cross Savings & Credit Cooperative

Mr. Napoleon E. Sentillas
Guadalupe Community MPC

CORPORATE SECRETARY

Atty. Daniel O. Evangelio, Jr.
Toril Community Cooperative

2016 OFFICERS & MANAGEMENT TEAM

ELECTION COMMITTEE

Ms. Nena C. Espinola NOVADECI	Dr. Gloria P. Dagatan, RGC SAMULCO	Mr. Alexander B. Raquepo Sta. Cruz Savings & Development

AUDIT COMMITTEE

Ms. Miriam R. Baloyo, CPA Tagum City	Mr. Juanito P. Rosini, PhD Isabela State University MPC

C MEDIATION COMMITTEE

Mr. Venchito L. Bullecer Oro Integrated Cooperative	Mr. Danny T. Cabahug PHCCI Dumaguete	Mr. Eduardo Q. Guerin Claveria Grassroots MPC

ETHICS COMMITTEE

Mr. Romeo A. de Jesus San Jose del Monte Savings & Credit Cooperative	Atty. Pedro B. Panis PHCCI Tacloban

GAD COMMITTEE

Ms. Norma R. Pereyras Tagum Cooperative	Ms. Marlene D. Sindayen NOVADECI	Dr. Irma E. Cruz St. Martin of Tours CDC

EXECUTIVE MANAGEMENT TEAM

Fermin L. Gonzales President & CEO	Admarie D. Marcelo, CPA EVP & Chief Financial Officer	Danilo B. Dollera VP & Chief Operating Officer	Noel D. Raboy, MBAex VP & Chief Marketing Officer	Raul M. Pregon Vice President Life Sales	Antonio R. Dosdos Vice President NonLife Sales

Renan P. Diaz AVP for Sales-Life	Erlwin C. Mijares Life Division Manager	Ulysses P. Zulueta NonLife Division Manager & Chief Underwriter	Reynaldo G. San Andres VP Compliance, Audit & Legal	Engr. Deal Noel D. Benegrado VP for Corporate Planning	Henry M. Lopez CLIFSA General Manager

CLIMBS
45TH ANNUAL GENERAL ASSEMBLY
"CLIMBS Complete Financial Solutions for Inclusive Growth"

April 22 & 23, 2017 | SMX Convention Center Lanang, Davao City

April 23, 2017 (Sunday) ▪ 1:00PM

General Assembly Proper

I. Presentation of Candidates
II. House Rules
III. Cooperative Message
    Atty. Pablo Paras Garcia
    Chairperson
IV. Call to Order
V. Proof of Due Notice of Assembly
VI. Roll Call and Confirmation of Quorum
VII. Approval of the Agenda
VIII. Reading and approval of the Minutes of the 44th General Assembly held in Radisson Blu, Cebu City
IX. Matters Arising from the Previous GA Minutes
X. Annual Report of the Officers and Committees
    a. *Financial Report*
    b. *BOD and Management Report*
    c. *Budget Report*
    d. *Audit Committee Report*
    e. *Election Committee*
    f. *Gender and Development Committee*
XI. Matters Arising from the Annual Report of the Officers and Committees
XII. Consideration of Resolutions, Recommendations and New Businesses
XIII. Other Matters
XIV. Election Proper
XV. Declaration of New Elected Officers
XVI. Adjournment

House Rules for the General Assembly

All voting delegates must be separated from the non-voting delegates / participants during the General Assembly.

Only voting delegates shall have the right to participate in the deliberation during the General Assembly.

A voting delegate who wants to raise a question or follow-up a question should be recognized first by the Moderator. He / She shall be called by the Moderator and will be requested to stand-up and give his / her name for record purposes.

The Moderator would then ask the voting delegate if his/ her question is related to the matter being discussed at hand.

Every voting delegate is allowed to raise only two (2) questions; the first and the other is, for the follow-up question. This is applicable to each issue or concern being discussed, subject however, to the direction of the Moderator to give chance to the other voting delegates. The Moderator has, also the discretion to further accept questions, as he / she deems fit and advisable, or elevate the matter to the Chairman / Presiding Officer for immediate consideration / dispositive action.

Every voting delegate is only allowed a maximum of three (3) minutes to discuss or clarify his / her point.

The Chairman / Presiding Officer using his inherent power, and if he sees fit and reasonable ask question/s or solicit motion/s direct from the Assembly, or even interrupt during deliberations without necessarily asking permission from the Moderator.

MINUTES AND PROCEEDINGS OF THE 44TH CLIMBS ANNUAL GENERAL ASSEMBLY
April 30, 2016 (Saturday) • 1:30-6:00 PM
Radisson Blu, Mabolo, Cebu City

OPENING PROGRAM

The 44TH CLIMBS Annual General Assembly started with an invocation, the singing of the National Anthem and the recitation of the Coop Pledge.

BUSINESS ASSEMBLY PROPER

I. Call to Order

Chairperson Gilbert S. Llanto called the assembly to order at 2:00 pm.

II. Proof of Due Notice

Corporate Secretary Rolando C. Casaway declared that there was a Proof of Due Notice sent to the members-cooperatives through mails.

III. Roll Call and Determination of Quorum

The Corporate Secretary attested that among the members that are entitled to vote, 69% or 171 cooperatives were present. Hence, there was quorum.

IV. Approval and Adoption of Agenda.

Chairperson MGen Gilbert S. Llanto directed the participating delegates to go over the items of the Agenda as indicated in the Annual Report, as follows:

I. Call To Order
II. Proof of Due Notice
III. Roll Call and Declaration of Quorum
IV. Approval of the Agenda
V. Reading and Approval of the Minutes
VI. Matters arising from the Previous Minutes
VII. Board and Management Report
VIII. Matters Arising From the Board and Management Report
IX. Committee Reports
X. Other Matters
XI. Elections
XII. Adjournment

GA Resolution No. 1, series of 2016

On motion made by Ms. Fe Adlawan of Tagum Cooperative, severally seconded and unanimously carried, the Assembly hereby approved the Agenda of the 2016 Annual General Assembly.

V. Reading and Approval of the 2015 General Assembly Minutes

GA Resolution No. 2, series of 2016

On motion made by Mr. Edgardo Silagan of Tagum Cooperative, duly seconded by Ms. Marlene Sindayen of NOVADECI and unanimously carried, the Assembly approved to dispense with the reading of the minutes of the previous General Assembly.

VI. Matters Arising from the Minutes of the Previous Meeting

Corrections to the Minutes of the previous General Assembly.

1. Page 4 Line 30 - Atty. Adolfo Ibanez of NATCCO reiterated Mr. Alexander Raquepo's recommendation to present the Community Development Fund report and for it to be part of this year's Assembly Meeting.

   CEO Fermin L. Gonzales responded that the Community Development Fund (CDF) was utilized when Nepal was badly stricken by earthquake wherein, CLIMBS donated five hundred thousand pesos (Php500,000.00) and the same was acknowledged with gratitude by Nepal. Furthermore, he also mentioned that after the Sendong Typhoon, a part of the CDF was also utilized to provide Cagayan de Oro City with an Early Warning Device.

2. Page 4 Line 39-42 Alexander Raquepo of Sta. Cruz Savings and Development also raised an inquiry on the mentioned 5-year strategic plan and the annual budget as he failed to see it to be a part of the agenda. He then added a correction of his surname from Raquipo to Raquepo.

   Chairperson MGen Gilbert S. Llanto answered that it is among the inserts of the Annual Report and later be a part of the CEO's presentation of the Management Report.

3. A delegate from SACDECO raised a point of order as to which of the two copies of the minutes that's going to be used in the proceedings, the Presiding Chair ruled that it should be the Minutes that's included in the Annual Report inserts.

4. Page 3 Line 15 - Bernabe Cocjin of West Visayas State University MPC Iloilo City raised his correction and comments on the quoted statement of the ELECOM Chairperson Romulo Amarado from the previous minutes.

   Corporate Secretary Rolando C. Casaway explained that since it is a quoted statement from the ELECOM Chair, it's up for the Chair if he will yield to the correction. Mr. Cocjin insisted that it is for clarity and for good English that he wished for the correction to be raised.

   Considering that it is a part of the previous minutes where the 43rd Assembly has already ruled its approval as corrected, Atty. Casaway asserted to let it be as stated.

   Mr. Cocjin continues to do his correction on some typographicals on the minutes, until finally Dr. Rhodora Englis of MSU-IIT NMPC suggested to look into the substance of the minutes and not on the grammatical errors as it would take longer before the Assembly can proceed to the next item of the Agenda. She then volunteered to do the corrections.

GA Resolution No. 3, series of 2016

On motion made by Mr. Edgardo Silagan of Tagum Cooperative, severally seconded and unanimously carried, the Assembly approved the minutes of the Previous Assembly's Meeting as corrected.

Corporate Secretary Rolando Casaway read the house rules that shall govern the Proceedings of the Assembly.

Mr. Jorge Cloa of MSU-IIT NMPC, reiterated his objection in the non-participation rule for the non-voting delegates. Chairperson Llanto explained that the non-voting delegates are not precluded in the participation of the discussion but rather the rules only require the non-voting delegates to course their issues of concern to the voting delegates who can actively participate in the Voting and the Business Assembly.

Mr. Cloa then continues to assert that the rules were merely read and it does not obtain the approval of the Assembly. Hence, that should not make any bearing at all.

GA Resolution No. 4, series of 2016

On motion made by Atty. Adolfo Ibanez of NATCCO, severally seconded and unanimously carried, the Assembly approved the House Rules and for all delegates voting or not, to be allowed to participate in the discussion but only the voting delegates may cast their votes.

Resolved further, approving the appointment of Norma Pereyras of Tagum Cooperative as Moderator.

A point of inquiry was made by Ms. Marlene Sindayen of NOVADECI whether the Proposed Election Rules which was presented by the ELECOM Chairperson Romulo Amarado prior to the Assembly Proper is included in the Agenda, Corporate Secretary Rolando Casaway answered that all matters raised during the presentation of the election rules will be referred to the Amendment Committee.

VII. Board and Management Report

The Proposed Budget for 2016 and Management Report were presented by CEO Fermin L. Gonzales, details of which are in the inserts of the Annual Report of 2015.

GA Resolution No. 5, series of 2016

On motion made by Ms. Monica L. Salido of Tagum Cooperative, severally seconded and unanimously carried, the Assembly hereby adopted and approved the Proposed Budget of 2016 as presented.

The Board of Directors' Report was then presented by Chairperson MGen. Gilbert S. Llanto, details of which can be found in the Annual Report of 2015.

GA Resolution No. 6, series of 2016

On motion made by Ms. Miriam R. Baloyo of Tagum Cooperative, severally seconded and unanimously carried, the Assembly hereby adopted and approved the Board and Management Report and developmental plans of 2016 as presented and shall form part of the Official Records of CLIMBS.

VIII. Matters Arising From The Board and Management Report

Ms. Nora Clar of MASS-SPECC congratulated CLIMBS for the good business conducted. However, she also commented to review on the pricing of CLIMBS Insurance Products and making it more competitive with the other Commercial Insurances, thus making it more affordable for the Coop members.

IX. Committee Reports

Proposed Election Guidelines

ELECOM Chairperson Romulo Amarado presented the parts of the proposed Election Guidelines which requires proper decision and disposal of the Assembly:

1. Should a representative of a cooperative elected to the BOD of CLIMBS has ended his/her term in the cooperative represented, but the term to be served in CLIMBS is still unexpired, the Cooperative may, through a resolution, allow a said representative, or designate another officer to finish the term;
2. To remove Item seven (7) of the qualification for the Independent Director;
3. The one coop one elected position rule.

Marlene Sindayen of NOVADECI then inquired if the Independent Director is to be voted or appointed by the Board where the qualifications set are questionable as the IC and CDA have different views on the matter. She further suggested that the matter be submitted back to the Board for further study.

CEO Fermin L. Gonzales answered that the Independent Directors are not elected by the Assembly but rather nominated and appointed by the Board with the following qualifications: 1) stake should not be more than 2% 2) must be competent in his field and knows the insurance business and 3) coming from the academe.

GA Resolution No. 7, series of 2016

On motion made by Ms. Marlene Sindayen of NOVADECI, severally seconded and unanimously carried, the Assembly hereby adopted and approved the qualifications and guidelines of an Independent Director as discussed by CEO Fermin L. Gonzales.

Mr. Raquepo then inquired if the approved resolution will be observed in the present Assembly of which Atty. Pedro Panis of PHCCI Tacloban answered that the amendment will still have to be incorporated in the By Laws.

Ms. Rodora Englis commented to delete contradictory qualifications of #5 and #7 set for the Independent Board of Directors.

GA Resolution No. 8, series of 2016

On motion made by Ms. Rhodora Englis of MSU-IIT NMPC, severally seconded and unanimously carried, the Assembly hereby approved to delete the qualification number seven (7).

Atty. Casaway then mentioned the fielded motion made by the delegate from NOVADECI allowing the Assembly to make nominations for Independent Directors. He then said to consider the motion to be part of the amendment.

When Atty. Adolfo Ibanez fielded a motion for the approval of that no coop will have two (2) seats in CLIMBS which was seconded by Ms. Nora Clar of MASS SPECC, Director Dela Pena commented that CLIMBS cannot be compared to MASS SPECC and that allowing more than one (1) seat will give preference for the investors who can give additional common share capital. Atty. Panis also added that it takes time to know the insurance business.

Ms. Nora Clar reasoned that positions must be spread among the coops.

Chairperson Llanto then asked to divide the house and the result was 151 for "yes" and 13 for "no". He then said that the guidelines will be affected in the next Assembly.

GA Resolution No. 9, series of 2016

On motion made by Ms. Monica Salido of Tagum Cooperative, severally seconded and unanimously carried, the Assembly hereby approved the proposed Election Code as corrected.

Proposed Amendment of the CLIMBS Articles of Cooperation and By-Laws

Atty. Casaway then presented the proposed amendment (bold text) to CLIMBS Articles of Cooperation and By Laws as follows:

1. **Article II**

   SECONDARY PURPOSES:
   1. To reinsure all or part of the risks underwritten by CLIMBS and to undertake all kinds of reinsurance to the extent allowed by law.
   2. To engage in the business of **credit**, real estates; acquire, sell, dispose, lease and encumber its properties to third persons.
   3. To establish a Training Institute on Financial Literacy and Management.
   4. **To become a training provider for trainings required by RA 9520 for its member cooperatives and their individual officers/member through the CLIMBS Institute for Financial Literacy (CIFL).**
   5. **To engage in the business of re-insurance for life and non-life including micro-health insurance and pre-need insurance.**
   6. **To establish branches here and abroad.**
   7. **To establish a Holding Company.**

2. Article IX Capitalization

   That the authorized capital stock of this cooperative shall be **One billion One Hundred Million Pesos (PhP 1,100,000,000.00)** and the capital stock is divided into **one million shares (1,000,000)** with a par value of one thousand pesos (PhP 1,000.00) per share broken down as follows:

   Eight hundred million (800,000,000) Common shares with a par value of one thousand pesos per share.

   Three hundred million (300,000,000)
   Preferred shares with a par value of one thousand pesos only.

3. **Article XI Arbitral Clause**

   Any dispute, controversy or claim arising out of or relating to this Articles of Cooperation, the cooperative law and related rules, administrative guidelines of the Cooperative Development Authority, including inter-Insurance Cooperative disputes and related concerns, and any question regarding, the existence, interpretation, validity, breach or termination of the business relationship shall be referred to and finally resolved by voluntary arbitration under the institutional rules promulgated by the Cooperative Development Authority, after compliance with the conciliation or mediation embodied in the applicable provisions of the CLIMBS bylaws and in such other pertinent laws and regulations.

4. **Section 8 Members Entitled to Vote**
   e) An incentive vote is given for every additional paid-up share of fifty thousand pesos (P50,000), provided that the incentive vote and the basic shall not exceed five (5) votes.

5. Section 24 Composition of the Board of the Directors
   a.1.) The nine regular directors shall consist of members-cooperatives which shall be represented by their voting delegates and they shall be elected **either** by secret ballot **or automation** by the voting delegates during the Annual General Assembly election, subject however to the provisions of paragraph b) and sub-paragraphs b.1), b.2), b.3), b.4), b.5), b.6), b.7) and b.8) respectively, as hereunder provided. They shall hold office for a term of two (2) years or until their successors shall have been duly elected and qualified.

   b.) The aforesaid nine seats of the Regular Directors (RD) shall be apportioned and elected by **either** secret ballot **or automation** as follows:

   b.1.) Six seats shall be apportioned to the three Island Regions of Luzon, Visayas and Mindanao, respectively, based on the proportionate aggregate share capital paid by the members-cooperatives in each of the three Island Regions. Thus, voting delegates coming from Luzon shall elect the Regular Director/s for Luzon. Voting delegates from Visayas shall elect the Regular Director/s for Visayas. Likewise, voting delegates from Mindanao shall elect the Regular Director/s for Mindanao. **Provided, however, that the two-year term shall be observed.**

   b.3) Only one voting delegate coming from each of the five highest member cooperative-investors is qualified to run for the aforesaid three (3) seats for Regular Directors. ~~**who shall be elected by voting delegates coming from the same Island Regions wherein each candidate member-cooperative belongs,**~~.

   Should a representative of a cooperative elected to the BOD and other elected and appointed officers of CLIMBS is separated from his/her cooperative for whatever reason, said cooperative is entitled to replace such representative within sixty (60) days from his/her separation. Failure to observe the period herein provided is deemed a waiver to such right and the existing BOD of CLIMBS may appoint a replacement representative from other cooperative from the same island region represented.

   Should a representative of a cooperative elected to the BOD of CLIMBS has ended his/her term in the cooperative represented, but the term to be served in CLIMBS is still unexpired, the

cooperative concern may through a resolution either allow said representative, or designate another officer to finish the term.

6. Section 41 Ethics Committee

Ethics Committee is hereby created and shall be composed of three (3) members to be appointed by the Board of Directors. Within ten (10) days after their appointment, they shall elect from among themselves a Chairperson, Vice-Chairperson and a Secretary who shall serve for a term of two (2) years. No member of the Committee shall hold any other position in CLIMBS during his term of office.

7. Section 54 Share Capital Contribution

a.) Common shares
a.1) Common share holders who do not patronize at least two products shall receive a return of their common share capital equivalent to one half of the interest of the preferred share.

b.) Preferred shares
b.2) Preferred shares shall be non-voting and shall have preference over the common shares in the assets of the cooperative in the event of liquidation and shall receive interest higher than the common share. **The interest of the preferred share shall be determined by the Board of Directors from time to time.**

GA Resolution No. 10, series of 2016

A mass motion was made, seconded and unanimously carried, the Assembly hereby adopted and approved the proposed amendments to CLIMBS By Laws as presented.

Ethics Committee Report

Atty. Pedro Panis submitted to the assembly the Code of Ethics that are among the inserts of the Annual Report. Hence, this resolution;

GA Resolution No. 11, series of 2016

A mass motion was made, seconded and unanimously carried, the Assembly hereby adopted and approved the proposed Code of Ethics and shall become an integral part of the CLIMBS official document.

X. Other Matters
There has been no Other Matters discussed.

XI. Elections

ELECOM Chairperson Romulo Amarado declared the foregoing New Members of the Board of Directors and Committee as Winners. He further stated that no candidates qualified to run for the Office of Independent Directors.

Top 3 Board of Directors

Name: Atty. Pablo P. Garcia
Cooperative: Cebu CFI Community Cooperative

Name: MGen. Gilbert S. Llanto (Ret.)
Cooperative: ACDI MPC

New Director of Luzon
Name: Elvira S. Dandan
Cooperative: San Dionesio Credit Cooperative
No. of Votes: 116

New Directors of Visayas
Name: Atty. Antonio Manuel A. ALcantara
Cooperative: PHCCI-Dumaguete
No. of Votes: 116

Name: Rose Marie P. Agner
Cooperative: PHCCI-Tacloban
No. of Votes: 89

New Board of Director of Mindanao
Name: Edgardo G. Amoronio
Cooperative: Sta. Catalina Credit Cooperative
No. of Votes: 73

New Audit Committee Member
Name: Miriam R. Baloyo
Cooperative: Tagum Cooperative
No. of Votes: 160

New Elections Committee Members
Name: Alexander B. Raquepo
Cooperative: SACDECO
No. of Votes: 249

He also expressed his gratitude to the Election Committee Members, IT Department and Staff Secretariat for their assistance that made the Elections Electronic Voting possible.

XII. Adjournment

GA Resolution No. 12, series of 2016

On motion made by Mr. Danilo Cabahug of PHCCI Dumaguete, severally seconded and unanimously carried, the Assembly hereby adjourned CLIMBS 44th Annual General Assembly.

Recorded by:

Ms. Niña Flor E.B. Batara (Sgd.)
Board Secretary

Attested by:

Atty. Rolando C. Casaway (Sgd.)
Corporate Secretary

Noted by:

MGen. Gilbert S. Llanto (Sgd.)
Chairperson

To Our Most Valuable Owners:

Let us celebrate sapphire year of CLIMBS by paying tribute to the two most remarkable fellas: Atty. Mords Cua and Atty. Aquio Pimentel who planted the seed from which CLIMBS sprang forth among the many seeds they have sown throughout their lives' journey.

Along with CLIMBS loyal and supportive stakeholders, the past and current officers and management have toiled the course up to CLIMBS' development and have weathered the challenges and took charge of the responsibilities like any good soldiers fully aware of the repercussions, demands and sacrifices required of them.

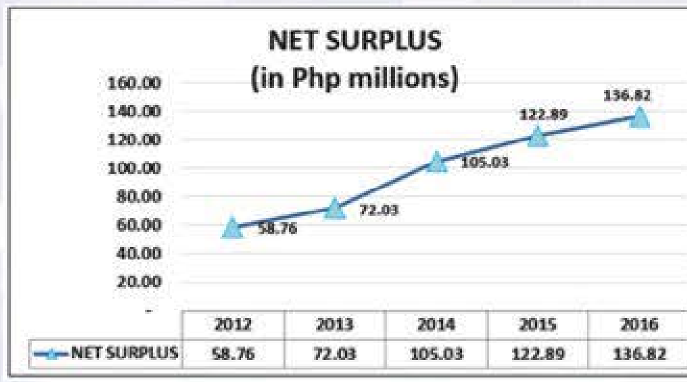
While CLIMBS has evolved into a professional and complete financial institution, we remain true and committed to our core purpose of protecting the members of the cooperatives through insurance services that is affordable and sustainable.

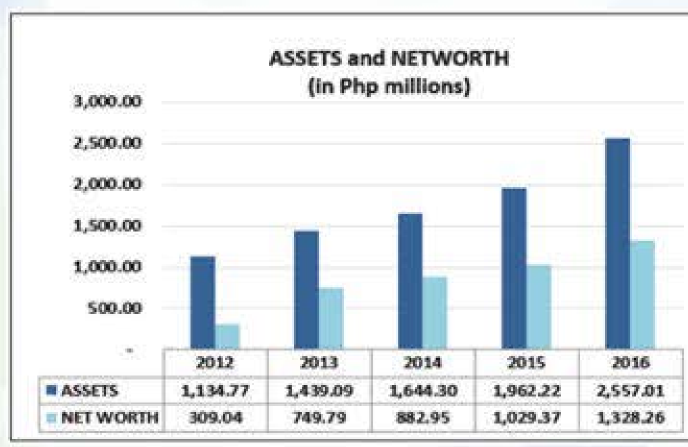
2016 PERFORMANCE HIGHLIGHTS

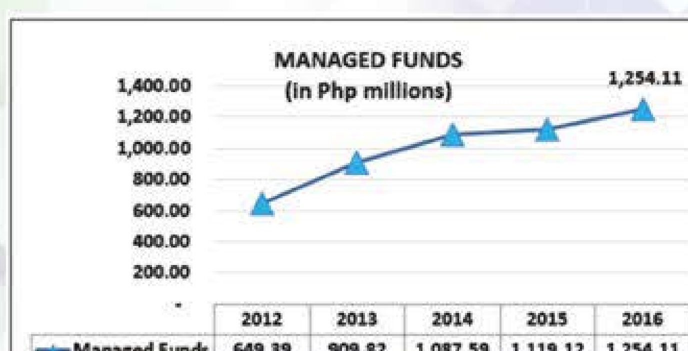
CLIMBS achieved excellent results this year by achieving improvements in its key indicators:

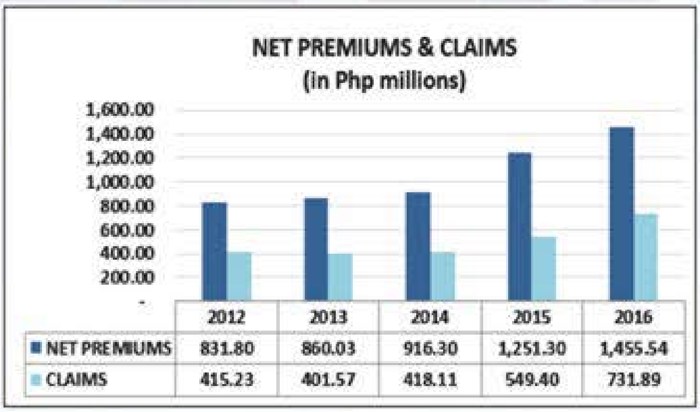
- We achieved gross revenues of 1.519 billion pesos which increased by 18.08%.
- Net surplus amounted to 136.82 million pesos which is higher by 11.34% than last year.
- Our assets reached 2.557 billion pesos at the end of the year which increased by 23.26%.
- Our Net Worth increased to 1.328 billion pesos which is higher by 22.50%
- Our managed funds increased to 1.254 billion pesos which increased to 12.06% from last year.

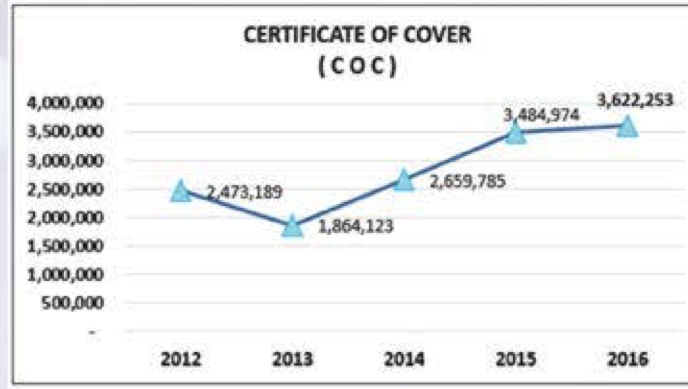
We continue to focus on achieving our cooperative's strategic goals by building CLIMBS as a household brand, optimizing our asset effectiveness, keeping our costs and expenses within budget, aligning and motivating our staff and increasing cash flow.











- Total Net Premiums amounted to about 1.456 billion pesos. Against that backdrop, we paid a total of 731.89 million claims in 2016.

- Life confirmation of coverage registered a total of 3,622,253 individuals with a net premium of 1.215 billion pesos.
- Non-Life or general insurance net premiums amounted to 239.86 million pesos that covered about 39,609 policies that were issued in 2016.

KEY FINANCIAL HIGHLIGHTS

	2016		2015		2014		2013		2012	
Assets	**2,557.01**	*100.00%*	**1,962.22**	*100.00%*	**1,644.30**	*100.00%*	**1,439.09**	*100.00%*	**1,134.77**	*100.00%*
Cash	920.92	*36.02%*	530.86	*27.05%*	380.54	*23.14%*	339.16	*23.60%*	357.24	*31.50%*
Investments	1,254.11	*49.05%*	1,119.12	*57.03%*	1,087.59	*66.14%*	909.82	*63.20%*	649.39	*57.20%*
Insurance Receivables	64.22	*2.51%*	62.93	*3.21%*	30.84	*1.88%*	51.68	*3.60%*	18.37	*1.60%*
Property & Equipment	88.59	*3.46%*	90.54	*4.61%*	84.20	*5.12%*	70.80	*4.90%*	86.72	*7.60%*
Legal Reserves	**658.04**	*25.73%*	**465.32**	*23.71%*	**376.93**	*22.92%*	**331.75**	*23.10%*	**416.17**	*36.70%*
Net Worth	**1,328.26**	*51.95%*	**1,029.37**	*52.46%*	**882.95**	*53.70%*	**749.79**	*52.10%*	**309.04**	*27.20%*
Net Premium	1,455.54	*100.00%*	1,251.30	*100.00%*	916.30	*100.00%*	860.03	*100.00%*	831.80	*100.00%*
Investment / Other Inc	**63.55**	*4.37%*	**35.18**	*2.81%*	**61.49**	*6.71%*	**36.68**	*4.30%*	**47.95**	*5.80%*
Gross Revenue	**1,519.10**	*104.37%*	**1,286.48**	*102.81%*	**977.79**	*106.71%*	**896.72**	*104.30%*	**879.75**	*105.80%*
Claims	**731.89**	*50.28%*	**549.40**	*43.91%*	**418.11**	*45.63%*	**401.57**	*46.70%*	**415.23**	*49.90%*
Policy Reserves	133.51	*9.17%*	101.22	*8.09%*	94.99	*10.37%*	113.90	*13.20%*	116.61	*14.00%*
Commission	**356.56**	*24.50%*	**374.13**	*29.90%*	**245.17**	*26.76%*	**223.22**	*26.00%*	**208.08**	*25.00%*
Salaries / Benefits	63.15	*4.34%*	53.69	*4.29%*	40.84	*4.46%*	30.44	*3.50%*	25.22	*3.00%*
Other Expenses	97.17	*6.68%*	85.15	*6.80%*	73.65	*8.04%*	55.57	*6.50%*	55.85	*6.70%*
Total Expenses	**1,382.28**	*94.97%*	**1,163.60**	*92.99%*	**872.76**	*95.25%*	**824.68**	*95.90%*	**820.99**	*98.70%*
Net Income	**136.82**	*9.40%*	**122.89**	*9.82%*	**105.03**	*11.46%*	**72.03**	*8.40%*	**58.76**	*7.10%*

	2016	2015	2014	2013	2012	2011	2010
BOOK VALUE							
Number of Common Shares with a Par Value of P1,000 per Share	960,074	500,976	339,149	245,568	178,889	140,149	119,718
Total Equity - net of Preferred Shares	1,119,812,160	885,984,067	790,521,526	688,880,951	235,973,852	718,890,040	144,374,340
Book Value per shares (BVPS)	1,166	1,769	2,331	2,691	1,319	1,276	1,206
DIVIDENDS							
Dividend Per Share	110	110	100	100	91.3	89.2	82.87
Dividend Rate	11.00%	11.00%	10.00%	10.00%	9.13%	8.92%	8.29%

2016 GOVERNANCE AND MANAGEMENT UPDATES

Governance

CLIMBS governance observed transparency, fairness and accountability. The regular conduct of quarterly board meetings, external audit, annual budget review, strategic planning, annual report and the conduct of the annual general assembly are among the highlights for the year 2016. Continuing professional education of its officers and employees were among the priorities to ensure that CLIMBS human capital are equipped with core competencies and a deeper knowledge of the business.

The Tribute: Judge Garcia Hall, Board Lounge and Coop TV Office

A fitting tribute to the memory of an icon of leadership who was the chairperson of CLIMBS from 2005 to February 1, 2016, the Judge Esperanza "Ma'am Inday" Fiel-Garcia Hall has been installed and duly inaugurated and blessed in succession with the Coop TV Station at the mezzanine floor of the new CLIMBS building and the Board Lounge at the administration building on June 24, 2016. The Garcia Hall is the official Board Room of the CLIMBS Board.

Personnel Development

After a successful Job Evaluation and Performance Management System engagements with Human Resource Consultant Atty. Juanita "Nanette" R. Gueco, HRAD Manager Ms. Delia L. Martinez, RSW took the mandate to implement and put in place staff devolution and staff re-alignment.

Deserving personnel from the head office in Cagayan de Oro have been promoted, re-assigned as well as deployed to different area offices to optimize human resource credentials, skills and development as well as fitting qualifications suited to the need of the different departments and areas needing such service and personnel to support the decentralization of CLIMBS operations at the local level.

Operations and Area Offices Improvements

To expedite the availment of services and claims processing, CLIMBS has empowered the four area offices in Luzon, Visayas and two (2) area offices of Mindanao in the Northern and the Southern part by installing the appropriate manpower complement to boost their operational efficiency. The Area Operations systems was also automated to optimize performance.

The VAADIN Framework IT Training held in Cagayan de Oro and was participated by CLIMBS IT Development Team.

VAADIN is the number 1 Java web User Interface (UI) Framework for business applications from Finland. It is a web development framework under the Rich Internet

Application (RIA) category. VAADIN is for agile UI component apps. It is an answer to the end-goal of making web applications fast and easy.

Financial Plus

CLIMBS tapped OneApp IT and Communications to develop the financial accounting system (Financial Plus) to operationalize and run the Financial Plus absolutely weaning from the long running Peach Tree Accounting System after a successful parallel testing on both the Life and Non-Life Division at the start of the year.

The above-mentioned system has been smoothly running under the leadership of Mr. Aldren T. Masas, CPA the department's young and vibrant Chief Accountant closely monitored by the EVP and CFO, Admarie D. Marcelo, CPA.

Convergence of the Life and Non-Life Division

To expedite the flow of documents and ensure an effectively efficient processing of transactions thereby addressing the demands and requirements of the cooperatives, Life and Non-Life Divisions have been put under one roof and same levels to guarantee a workable set-up to properly accommodate the steady flow of transactions requiring prompt attention and service under the direct supervision of the VP and COO, Mr. Danilo B. Dollera.

First Annual CAC Gathering

The first Annual Coop Assurance Centers (CAC) Fellowship for Mindanao was held at the Pinnacle Hotel and Suites in Davao City on December 12, 2016.

The event was organized by VP Non-Life Sales Antonio R. Dosdos, AVP Life Sales Renan Diaz and CLIFSA GM Henry Lopez along with Regional Sales Managers and General Agency Managers.

The said event was attended by 30 Coop Assurance Centers (CAC) from Mindanao represented by their respective Coop Chairpersons, CAC Managers and Coop Managers for a total of 98 participants where dinner was served.

Incorporating Fitness and Wellness in the Workplace

Fitness and wellness in the workplace is a sound strategy to beef up manpower efficiency levels. A healthy body reinforces a sound mind. Hence, working hours are hereby rendered in an upbeat mode and happy dispositions resulting to prompt service while boosting staff esteem. A regular weekly *Fitdance* regime has been made every Tuesdays after office hours in Cagayan de Oro City.

CLIMBS Supports Government's 4Ps Program

As the grassroots insurance leader, CLIMBS has reached out to people-based development groups in the countryside such as the marginalized poor, who are beneficiaries of the government's 4P's Program designed to promote investment in the human capital among the poor families.

A total of 30,490 individuals coming from the 6,098 families of municipalities of Misamis Oriental namely: Alubijid 87, Balingasag 306, Claveria 867, Initao 162, Jasaan 684, Medina 277, Opol 1168; from Bukidnon: Baungon 89, Don Carlos 389, Kitaotao 1,588; and from El Salvador City: 481.

Overseas Engagements

8th China International Insurance Summit in Beijing China, June 15-17, 2016

Three members of the Board led by Vice Chairman MGen Gilbert S. Llanto, (Ret.) Mansueto V. dela Pena, Judge Antonio A. Alcantar (Ret.) and Ulysess P. Zulueta, the Non-Life Division and Underwriting Manager was joined by the VP and COO Danilo B. Dollera.

AGILE Training by ICMIF at Singapore, November 6 - 11

The EVP and CFO of CLIMBS: Ms. Admarie D. Marcelo, CPA, joined a select group of top level management trainees for only 11 persons from 6 Asian countries for a highly technical AGILE training organized by the International Cooperative Mutual Insurance Federation held at the Hotel Rendezvous from November 6-11, 2016 where she was conferred a Best in Dashboard Presentation Award. She will be translating the learnings to the IT Development team in developing CLIMBS ERP system.

12th Micro Insurance Conference in Colombo, Sri Lanka Conference, November 15-17, 2016

The conference drew together 70 high ranking representatives from the supervisory bodies and the industry aimed at improving and fostering knowledge and a better understanding of the inclusive insurance markets.

Our President and CEO attended as one of the presenters to the 7th consultative Forum on Micro-Insurance Regulation for insurance supervisory authorities and insurance practitioners with the theme: "The Role of Mutuals, Cooperatives and Community-Based Organization (MCCOs) in Inclusive Insurance Markets."

He was joined by the VP and CMO: Mr. Noel D. Raboy, MBAEx.

The Asian Managers Micro-Insurance Course in Yogyakarta, Indonesia: November 22-24, 2016

The said training was jointly undertaken by the Impact Insurance – International Labour Organization (ILO), the Insurance Institute for Asia and the Pacific (IIAP), ASEAN Insurance Council and the Philippine Insurers and Reinsurers Association (PIRA), Inc.

The following personnel from CLIMBS attended the said training arranged by the Insurance Institute for Asia and the Pacific in coordination with the ILO; Jesus Antonio Dosdos: VP for Non-Life Sales, Renan Diaz: AVP for Life - Sales and Marietta V. Magallones: National Sales Training Officer.

CLIMBS Institute

Fifteen (15) courses were conducted in 2016, which were attended by 419 participants coming from the different cooperative partners in Luzon, Visayas and Mindanao. The Institute partnered with 5 training providers in the conduct of the training courses on specific courses, dates and venues cited in the table below:

Date and Venue	Course/ Training	Resource Speakers
January 28-29 Best Western Lex Plus Hotel in Cebu City	Creating an Effective Strategic Framework	The Canadian Cooperative Association - *Ms. Bev Maxim*
March 16-18 CLIMBS Training Hall	Preparing Coop General Managers for the Years 2020-2015	VRV Management & Property Consultancy Inc., *Prof. Vicente R. Valdellon, Jr.*
April 18-19 CLIMBS Training Hall.	Enterprise–Wide Risk Management	The Insurance Institute for Asia and the Pacific (IIAP) *Mr. Januario Aliwalas*
May 11-12 Cebu CFI Training Hall in Cebu City	Change Management	The Insurance Institute for Asia and the Pacific (IIAP) *Mr. Gerrie Baricaua*
June 20-22 Bayview Park Hotel in Manila	Consolidations, Co-Ventures, Mega Deals which Coops Remain Uninformed About	VRV Management & Property Consultancy Inc., *Prof. Vicente R. Valdellon, Jr.*
July 7-8 CLIMBS Training Hall	Work Habits, Values & Productivity	M & A Training and Consultancy – *Mr. Cosme Pacana*
August 4-5, 2016 Pinnacle Hotel & Suites, Davao City	Customer Services: Pitfalls and Trampolines	M & A Training and Consultancy – *Mr. Cosme Pacana*

Date and Venue	Course/ Training	Resource Speakers
August 11-12 Le Monet Hotel, Baguio City	Investment in Long Term Asset	The Personnel Finance Advisers Philippines, Inc., *-Efren Ll. Cruz, RFP*
September 8 & 9 CLIMBS Training Hall	Discovering Your Leadership Style	M & A Training and Consultancy – *Mr. Cosme Pacana*
September 19-21 Pinnacle Hotel & Suites, Davao City	Target Marketing and Marketing Segments	VRV Management & Property Consultancy Inc., - *Prof. Vicente R. Valdellon, Jr.*
October 12-14 Bayleaf Hotel, Intramuros, Manila	General Manager Training 202	VRV Management & Property Consultancy Inc., - *Prof. Vicente R. Valdellon, Jr.*
October 27-28 CLIMBS Training Hall	Business Process and Lean Management	The Insurance Institute for Asia and the Pacific (IIAP) *Mr.Art Zamora*
November 23-24 CLIMBS Training Hall	The Coop Leader as a Coach and Mentor	M & A Training and Consultancy – *Mr. Cosme Pacana*
November 25 CLIMBS Training Hall	Fundamentals of Cooperatives	M & A Training and Consultancy – *Mr. Cosme Pacana*
December 5-6 Bayview Park Hotel, Roxas Boulevard, Manila	Economic Outlook for 2017	VRV Management & Property Consultancy Inc., *Prof. Vicente R. Valdellon, Jr.*

Your profound support to all the innovations and achievements undertaken in 2016 made possible all that has been achieved.

In behalf of CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE, we are truly grateful.

FERMIN L. GONZALES
President and CEO

MGen. GILBERT S. LLANTO (Ret)
Vice-Chairperson, Board of Directors

ATTY. PABLO PARAS GARCIA
Chairperson, Board of Directors

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE

OPERATING BUDGET FOR THE YEAR 2017

In million pesos	PROPOSED 2017 BUDGET	%	ACTUAL 2016	%	APPROVED 2016 BUDGET	%
Net Premium	1,900.0	100.0%	1,455.5	100.0%	1,600.0	100.0%
Direct Costs	1,631.7	85.9%	1,222.0	84.0%	1,358.0	84.9%
Underwriting Income	268.3	14.1%	233.6	16.0%	242.0	15.1%
OPEX	165.2	8.7%	160.3	11.0%	162.0	10.1%
Operating Income	103.1	5.4%	73.3	5.0%	80.0	5.0%
Investment and Other Income	106.9	5.6%	63.6	4.4%	80.0	5.0%
Projected Net Income	210.0	11.1%	136.8	9.4%	160.0	10.0%

CAPITAL EXPENDITURES FOR THE YEAR 2017

In million pesos	PROPOSED 2017 BUDGET
Leasehold Improvement-Cebu	2.5
Leasehold Improvement-Davao	2.5
Leasehold Improvement-Luzon	0.3
Office Improvement - Bulua Head Office	1.0
Records Room Construction-Permanent Files at Head Office	1.2
Office Equipment, Computer Equipment	5.1
Software Development - CLIMBS Financial Plus	9.0
Software Development - CIIMS Integration to Financial Plus	3.5
Servers and Accessories	2.5
Furniture and Fixtures	1.2
Transportation Equipment	3.2
Total	32.0

Joint Board and Management Recommendation

Proposed establishment of the CLIMBS Investment Corporation as Holding Company
The holding company will be mobilized to generate funds for CLIMBS expansion projects (subsidiaries).

Board Resolution #5, series of 2017

"On the motion made by Director Mansueto Dela Peña, seconded by Director Sarah T. Agner, et al., the Board hereby endorsed to the General Assembly the establishment of the CLIMBS Capital Investment Corporation as a holding Company. Motion carried."

Proposed 4-Storey CLIMBS Market Market at Pabayo-Borja Sts., Cagayan de Oro City
The property is located in a prime location in the city proper of Cagayan de Oro which is a feasible investment for CLIMBS to generate added revenues.

Board Resolution #6, series of 2017

"On the motion made by Director Antonio Manuel Alcantara, seconded by Director Edgardo G. Amoronio, et al., the Board hereby approved the Proposed 4-Storey CLIMBS Market Market at Pabayo-Borja Sts. Cagayan de Oro City.

"Resolved further, approving the retention of the 2016 Dividends, Patronage Refunds and Experience Refunds to finance the CLIMBS Market Market project. Motion carried."

Proposed CLIMBS New Logo
After two decades and with CLIMBS' performance proving that innovation and hard work paid off, the Management proposed for the re-branding of CLIMBS' old logo as part of its journey into becoming a complete financial solution enterprise.

Board Resolution #7, series of 2017

"On the motion made by Director Mansueto dela Peña, seconded by Director Napoleon E. Sentillas, et al., the Board hereby endorsed for Management to propose the CLIMBS new logo. Motion carried."

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE
SINCE 1971
"The Grassroots Insurance"

Zone 5, National Highway, Bulua
9000 Cagayan de Oro City, Philippines
Telefax Nos.: (08822) 738738; (088) 8560355
Tel. Nos. (08822) 738722; 738886
Email: head_office@climbs.coop
Website: www.climbs.coop

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended **December 31, 2016**. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Information Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached unaudited financial statements for the year ended **December 31, 2016** and the accompanying Annual Income Tax Return are in accordance with the books and records of **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE** complete and correct in all material respects. Management likewise affirms that:

a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Cooperative's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

c) The **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Atty. Pablo P. Garcia
Chairman of the Board

Fermin L. Gonzales
President & CEO

Admarie D. Marcelo, CPA
EVP & Chief Financial Officer

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Email: head_office@climbs.coop
Website: www.climbs.coop

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2016 and 2015. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRS), except for items presented and discussed in the Notes to Financial Statements which are allowed to Cooperatives registered with the Cooperative Development Authority (CDA) and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

BDO ROXAS CRUZ TAGLE and Co., CPAs (Formerly BDO ALBA ROMEO & Co., CPAs), the independent auditors appointed by the Board of Directors for the years ended December 31, 2016 and 2015, has examined the financial statements of the Cooperative in accordance with the Philippine Standards on Auditing and the Standard Audit Systems for Cooperatives and has expressed their opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

Atty. Pablo P. Garcia
Chairman of the Board

Fermin L. Gonzales
President & CEO

Admarie D. Marcelo, CPA
EVP & Chief Financial Officer

BDO Roxas Cruz Tagle and Co.
Audit | Tax | Consulting | BSO

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Fax: +(632) 844 2045

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members
CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY (THE GROUP)
Zone 5, Upper Bulua, National Highway, Cagayan de Oro City

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of **CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY (THE GROUP)**, which comprise the statements of financial condition as at December 31, 2016 and 2015, and the statements of operations, statements of changes in equity and cash flows statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) and Philippine Financial Reporting Framework (PFRF) for Cooperatives.

Basis for Opinion

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

Emphasis of matter

We draw attention to Note 2.1 to the financial statements which state that the accompanying financial statements as at and for the year ended December 31, 2016 are the Group's first financial statements with consideration to PFRF for Cooperatives which the Cooperative Development Authority, through Memorandum Circular No. 2015-06 dated September 16, 2015 has prescribed to use starting in year 2016.

The adoption of PFRF for Cooperatives resulted in certain changes in the Group's accounting policies as to its recognition and measurement, as well as to the disclosures and the presentation of its financial statements. The changes, however, were assessed to have no material effect on the amounts reported for the current or prior years. Our opinion is not modified/qualified in respect of this matter.

Other matter

The consolidated financial statements are prepared for the Group and for all of its members/stakeholders. As a result, these may not be suitable for another purpose and should not be distributed to any governmental regulatory agencies or to be used by parties other than the Group and its members/stakeholders. In this regard, another financial statements for the Parent and Subsidiary Cooperatives will be prepared/issued for distribution to any governmental regulatory agencies and use by other parties.

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

April 7, 2017
Makati City, Metro Manila

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY
(THE GROUP)
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	4	920,924,446	530,858,138
Insurance receivables	5	64,224,253	62,929,996
Financial assets			
Held to maturity	6	728,572,964	659,426,141
Available-for-sale (AFS) financial assets	7	525,540,107	459,699,933
Loans and receivables	8	68,625,925	36,720,989
Investment property - net	9	148,202,018	104,904,508
Property and equipment - net	10	88,590,446	90,541,500
Retirement plan assets - net	16	-	1,449,673
Other assets	11	12,326,252	15,693,859
TOTAL ASSETS		2,557,006,411	1,962,224,737
LIABILITIES AND MEMBERS' EQUITY			
Insurance contract liabilities	12	658,038,088	465,316,677
Insurance payables	12	291,944,332	220,069,267
Trade and other payables	13	164,355,633	173,739,293
Retirement liability - net	16	5,551,615	-
Interest on capital, experience and patronage refund payable	1	108,855,465	73,731,433
Total Liabilities		1,228,745,133	932,856,670
MEMBERS' EQUITY			
Share capital	14	1,128,054,660	644,360,818
Statutory reserves	15	175,803,097	116,747,898
Surplus reserves		34,600,977	270,839,393
Unrealized gains (loss)		(10,197,456)	(2,580,042)
Total Member's Equity		1,328,261,278	1,029,368,067
TOTAL LIABILITIES AND MEMBERS' EQUITY		2,557,006,411	1,962,224,737

(The notes on pages 5 to 51 are an integral part of these financial statements.)

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY
(THE GROUP)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015
REVENUE			
Gross premiums on insurance contracts		1,548,492,134	1,317,686,448
Less: Reinsurers' share of gross premiums on insurance contracts		92,948,550	66,382,813
Net insurance premiums		1,455,543,584	1,251,303,635
Other income			
Investment and interest income		48,555,463	28,667,484
Commission earned and other underwriting income		10,676,374	2,375,345
Miscellaneous		4,321,122	4,137,805
		63,552,959	35,180,634
Total revenue		1,519,096,543	1,286,484,269
BENEFITS AND OPERATING EXPENSES			
Net benefits and claims paid on insurance contracts		731,891,114	549,403,745
Increase in legal policy reserves		133,513,178	101,221,681
Net insurance benefits and claims		865,404,292	650,625,426
Collection costs		356,563,864	374,133,236
General and administrative	17	76,116,971	67,659,275
Salaries, wages, officers' and employees' benefits	18	63,146,732	53,693,489
Depreciation	9,10	16,454,277	17,487,121
Provision for probable losses	8	4,588,943	-
		516,870,787	512,973,121
Total benefits and operating expenses		1,382,275,079	1,163,598,547
NET SURPLUS FOR DISTRIBUTION		136,821,464	122,885,722
OTHER COMPREHENSIVE INCOME		-	-
Unrealized gain (loss) on AFS investment		-	(3,356,295)
Actuarial gain (loss) on retirement fund payable		(7,617,414)	776,253
		(7,617,414)	(2,580,042)
NET SURPLUS		129,204,050	120,305,680
NET SURPLUS DISTRIBUTION	1		
General reserve fund		13,682,146	12,288,572
Cooperative education and training fund		10,945,717	12,288,572
Community development fund		4,104,644	3,686,572
Optional fund		6,841,073	8,602,001
Surplus reserve fund		-	12,288,572
Interest on share capital, experience and patronage refund		101,247,884	73,731,433
Total distribution		136,821,464	122,885,722

(The notes on pages 5 to 51 are an integral part of these financial statements.)

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY
(THE GROUP)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015
SHARE CAPITAL	14		
Preferred Shares - PhP 1,000 Par Value			
Opening balances		143,384,000	90,996,000
Additional investments received during the year		56,616,000	52,388,000
Closing balances		200,000,000	143,384,000
Common Shares - PhP 1,000 Par Value			
Opening balances		506,294,000	339,148,000
Additional investments received during the year		293,706,000	167,146,000
Closing balances		800,000,000	506,294,000
Deposit for future subscriptions		168,523,757	784
Treasury stocks		(40,469,097)	(5,317,966)
Total Share Capital		1,128,054,660	644,360,818
STATUTORY RESERVES	15		
General reserve fund			
Balance, January 1		53,202,209	40,913,637
Distributions during the year		13,682,146	12,288,572
Net transactions during the year		10,753,962	-
Balance, December 31		77,638,317	53,202,209
Cooperative education and training fund			
Balance, January 1		14,604,412	15,539,711
Distributions during the year		10,945,717	12,288,572
Net transactions during the year		(1,114,599)	(13,223,871)
Balance, December 31		24,435,530	14,604,412
Land and building			
Balance, January 1		38,505,535	29,903,534
Distributions during the year		6,841,073	8,602,001
Net transactions during the year		11,888,544	-
Balance, December 31		57,235,152	38,505,535
Community development fund			
Balance, January 1		10,435,742	7,065,468.00
Distributions during the year		4,104,644	3,686,572
Net transactions during the year		1,953,712	(316,298)
Balance, December 31		16,494,098	10,435,742
Total Statutory Reserves		175,803,097	116,747,898
SURPLUS RESERVES			
Balance, January 1		270,839,393	363,753,009
Distributions during the year		-	12,288,572
Net transactions during the year		(236,238,416)	(105,202,188)
Balance, December 31		34,600,977	270,839,393
OTHER COMPREHENSIVE LOSS		(10,197,456)	(2,580,042)
		1,328,261,278	1,029,368,067

(The notes on pages 5 to 51 are an integral part of these financial statements.)

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY
(THE GROUP)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016 and 2015
(In Philippine Peso)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus		136,821,464	122,885,722
Adjustments for:			
Depreciation	9,10	16,454,277	17,487,122
Provision for probable losses on loans receivable	8	4,588,943	-
Provision for retirement benefits	16,18	1,643,686	1,333,615
Investments and interest income earned	21	(48,555,463)	(34,154,126)
Operating income before working capital changes		110,952,907	107,552,333
Decrease (increase) in current assets:			
Insurance receivables		(1,294,257)	(32,088,240)
Loans and receivables		(36,493,879)	(26,753,870)
Other assets		866,140	(8,257,336)
Increase (decrease) in current liabilities:			
Insurance contract liabilities		192,721,411	88,385,080
Insurance payables		71,875,065	22,289,711
Trade and other payables		(9,383,660)	50,888,003
Net cash generated from operating activities		329,243,727	202,015,681
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional share capital subscriptions - net of withdrawals		483,693,842	219,534,154
Increase (decrease) in statutory reserves		23,481,619	(13,540,169)
Decrease in surplus reserves		(236,238,416)	(105,202,188)
Payment of interest on share capital and patronage refund		(66,123,852)	(63,019,943)
Net cash provided by financing activities		204,813,193	37,771,854
CASH FLOWS FROM INVESTING ACTIVITIES			
Income earned from investments	21	48,555,463	34,154,126
Increase (decrease) in:			
Held-to-maturity investments		(69,146,823)	47,074,106
Available-for-sale financial assets		(65,840,174)	(82,909,179)
Proceeds from disposal of property	10	-	651,138
Additions to property and equipment	10	(17,542,545)	(22,731,849)
Additions to investment property	9	(40,016,533)	(65,704,202)
Net cash used in investing activity		(143,990,612)	(89,465,860)
NET INCREASE IN CASH		390,066,308	150,321,675
CASH AND CASH EQUIVALENTS, JANUARY 1	4	530,858,138	380,536,463
CASH AND CASH EQUIVALENTS, DECEMBER 31	4	920,924,446	530,858,138

(The notes on pages 5 to 51 are an integral part of these financial statements.)

CLIMBS LIFE AND GENERAL INSURANCE COOPERATIVE AND ITS SUBSIDIARY (THE GROUP) NOTES TO FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - COOPERATIVE INFORMATION/ TAX EXEMPTION

I. COOPERATIVE INFORMATION

The Parent Cooperative

The **CLIMBS Life and General Insurance Cooperative** (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 provisions of Republic Act (R.A.) No. 9520, an Act Amending the Cooperative Code of the Philippines to be known as "Philippine Cooperative Code of 2008", obtaining therein its new Registration No. 9520-10008741 on March 1, 2010.

The Parent Cooperative is engaged in the business of life, non-life, and mutual benefit services, offering its members and beneficiaries the following products: (1) Cooperative Life Savings Plan, (2) Cooperative Loan Protection Plan (CLPP), (3) Group Renewal Term Life (GRTL), (4) Group Family Plan (GFP), (5) Group Accident, Death, Dismemberment, Disablement Insurance (GADDI), (6) Group Life and Accident with Fire Insurance (GLAFI), (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- 15 years 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 care and other casually insurances and suretyship as are applicable.

The Parent Cooperative maintains Head Office at CLIMBS Building, Zone 5, Upper Bulua, National Highway, Cagayan de Oro City. It maintains area offices all over the Philippines.

Granting of Composite Insurance License

On October 23, 2007, the CDA approved the amendments to the primary purposes of CLIMBS, paving the way for its engagement in non-life assurance business as a Composite Insurance Company. The amendment effectively authorized the Cooperative to underwrite 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, subject to the granting of secondary license from the IC.

On April 21, 2010, the IC granted the Cooperative's Composite Insurance License authorizing the Cooperative to operate as a life and general insurance company. In the same year, the Cooperative commenced its non-life division. The secondary license is renewable every 3 years and its current license will expire by December 31, 2018.

The Subsidiary Cooperative

The Coop Life General Insurance and Financial Services Agency (CLIFSA) (the Subsidiary Cooperative) is a secondary cooperative that is licensed by the IC as General Agency, 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 alliance with Alpha Insurance, Malayan Insurance Charter, Ping-An Insurance, Stronghold Insurance, and Paramount Life and General Insurance, 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 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 provision of R.A. No. 9520, known as the "Philippine Cooperative Code of 2008", obtaining therein its new Registration No. 9520-10017273 on September 30, 2010.

The Subsidiary Cooperative holds office in the Fourth Floor, CLIMBS Building, Pacana- Tiano Streets, Cagayan de Oro City.

Distribution of Net Surplus

As provided for in its By-Laws, the Parent and Subsidiary Cooperative's net surplus is defined and distributed in the following manner:

- An amount of the general reserve fund, which shall be at least ten per centum (10%) of the net surplus;
- An amount for the education and training fund, which shall not be more than ten per centum (10%) of net surplus;
- An optional fund, a land and building, community development, and any other necessary fund the total of which may not exceed seven per centum (7%);
- Community development fund (CDF) at least three per centum (3%) of the net surplus; and
- The remaining net surplus shall be made available to the members in the form of interest on share capital and patronage refund computed in accordance with Republic Act (RA) 9520.

Accordingly, the net surplus in 2016 and 2015 were distributed as follows:

	2016	%	2015	%
General reserve fund	13,682,146	10%	12,288,572	10%
Cooperative education and training fund	10,945,717	8%	12,288,572	10%
Community development fund	4,104,644	3%	3,686,572	3%
Optional fund	6,841,073	5%	8,602,001	7%
Surplus reserve fund	-	-	12,288,572	10%
Interest on share capital, experience and patronage refund	101,247,884	74%	73,731,433	60%
	136,821,464	100%	122,885,722	100%

As at December 31, there was still an unpaid interest on share capital, experience and patronage refund payable of 7,607,581 from the 2015 distribution of net surplus. An aggregate amount of P108,855,465 was reported as interest on share capital, experience and patronage refund payable.

II. TAX EXEMPTION

As a Cooperative transacting with members only, the Parent and Subsidiary Cooperative (the Group) are entitled to the following tax exemptions and incentives provided for under Article 60 of Republic Act (RA) No. 9520, as implemented by Section 7 of the Joint Rules and Regulations Implementing Articles 60, 61 and 144 of RA No. 9520:

- Income tax on income from CDA-registered operations;
- Value-Added Tax (VAT) on CDA-registered sales or transactions;
- Other percentage tax;
- 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;
- Excise tax for which it is directly liable;
- Documentary stamp tax: Provided, however, that the other party of the taxable document/transaction who is not exempt shall be the one directly liable for the tax;
- Annual registration fee of ₱ 500 under section 236 (B) of the Tax Code of 1997; and
- All taxes on transactions with insurance companies and banks, including but not limited to 20% final tax on interest deposits and 7.5% final tax on interest income derived from a depository bank under the expanded foreign currency deposit system.

The Group has already complied with the documentary requirements for the application of the renewal of certificate of tax exemption (CTE) within the prescribed period under the Joint Rules and Regulations Implementing Articles 60, 61 and 144 of RA No. 9520. As at March 15, 2017, the renewal of CTE have been issued by the BIR.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the financial statements are summarized below. These policies have been applied in the years presented, unless otherwise stated.

Statement of compliance

The financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), except for items presented and discussed in the following pages which are allowed to Cooperatives registered with the CDA, in accordance with Philippine Financial Reporting Framework for Cooperatives which the Cooperative Development Authority, through Memorandum Circular No. 2015-06 has prescribed to use in 2016. Management believes that the financial statement prepared under such basis, present fairly the Group's financial position, financial performance and cash flows.

Philippine Financial Reporting Framework for Cooperatives

Certain accounts presented in the financial statement of the Group for the year ended December 31, 2016 is its first annual financial statement prepared under accounting policies that comply with Philippine Financial Reporting Framework for Cooperatives.

The adoption of Philippine Financial Reporting Framework for Cooperatives resulted in certain changes in the Group's accounting policies as to its recognition and measurement, as well as to the disclosures and the presentation of its financial statements. The changes, however, were assessed to have no material effect on the amounts reported for the current or prior years.

- Financial statements titles, Philippine Accounting Standards (PAS) 1 *Presentation of Financial Statements*

  As provided under PAS 1, an entity may use titles other than those used in PAS 1. As required under the Standard Chart of Accounts (SCA) for all cooperatives which was issued by the CDA under Memorandum Circular (MC) 2009-04, the complete set of financial statement of a cooperative includes the following components:

  a) **Statement of Financial Condition** shows assets, liabilities, and equity accounts of a business entity as of a given date. Equity accounts for a cooperative include members' share capital, donations and/or grants, and statutory funds.

  b) **Statement of Operations (Income Statement)** presents revenues, costs and expenses, gains and losses and net surplus or net loss. The items presented are recognized in the books using modified accrual basis of accounting. Expenses are classified according to their function as part of cost of sales/services rendered, distribution or administrative activities. In a cooperative the difference between revenues and expenses is called net surplus that is allocated in accordance with the Cooperative Code or the cooperative's by-laws.

  c) **Statement of Changes in Equity** shows separately the changes in members' equity, donations and grants and statutory funds. Transactions affecting these accounts include members' capital build-up, refund of share capital due to membership withdrawal, acceptance of donations and grants in cash or in kind and subsequent utilization, allocation of net surplus to and utilization of statutory funds.

  d) **Cash Flows Statement** is a formal statement summarizing all the cash activities of the cooperatives. These include their operating, investing and financing activities.

  e) **Notes to Financial Statement** include narrative descriptions or more detailed analyses of amounts shown on the face of the financial statement as well as additional information not presented on the face of the Statement of Financial Condition, Statement of Operation and Statement of Cash Flow to achieve fair presentation. It also describes the accounting policies and the measurement basis /bases used in the preparation of the financial statement.

- Classification of members' share as financial liability, PAS 32 *Financial Instruments: Presentation* and IFRIC Interpretation 2 *Members' Share in Cooperative Entities and Similar Instruments*

  PAS 32 establishes principles for the classification of financial instruments as financial liabilities or equity. In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. As specified under IFRIC 2, the contractual right of the holder of a financial instrument (including members' share in co-operative entities) to request redemption does not in itself, require that financial instrument to be classified as financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity. Those terms and conditions include relevant laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.

Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares e.g. unconditional prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity. However, provisions in local law, regulation or the entity's governing charter that prohibit redemption only if conditions - such us liquidity constraints - are met (or not met) do not result in members' share being equity.

As provided under Article 30, *Termination of Membership* of RA 9520, (1) a member of a cooperative may, for any valid reason, withdraw his membership from the cooperative by giving a 60 day notice to the board of directors. Subject to the bylaws of the cooperative, the withdrawing member shall be entitled to a refund of his share capital contribution and all other interest in the cooperative: provided, that such shall not be made upon such payment the value of the assets of the cooperative would be less than the aggregate amount of its debts and liabilities exclusive of his share capital contribution.

Under the SCA, members' share capital shall be accounted for and presented under equity.

- Retrospective restatement when the Cooperative changes an accounting policy or reclassifies items that affects income and expense, PAS 1

  PAS 1 requires that the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* be presented in the statement of changes in equity. However, as required under the SCA for cooperatives, adjustments on transactions affecting income and expenses incurred in previous years are recognized in the statement of operations and are presented under 'Other items - Subsidy/Gain (Losses)' as 'Prior Period Adjustment'.

- Effective interest method of recognition of interest income on financial instruments, PAS 18 *Revenues* and PAS 39 *Financial Instruments: Recognition and Measurement*

  Under PAS 18, interest income shall be recognized using effective interest method as set out in PAS 39 paragraph 9. However, for credit and other cooperatives, recognition of interest income is on a modified accrual basis (i.e., interest income, fines, penalties and surcharges shall be recognized when earned and actually collected).

Basis of measurement and presentation

The financial statement had been prepared on a historical cost basis and is presented in Philippine Peso (P), which is the Group's functional and presentation currency. All values are rounded off to the nearest Peso, unless otherwise indicated.

Use of judgments and estimates

The preparation of financial statement in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statement and their effects are disclosed in Note 3.

New and Amended Standards and Interpretation

Standards and amendments effective before or on December 31, 2016

Amendments to PFRS 10 Consolidated Financial Statements, PFRS 12 Disclosure of Interests in Other Entities and Philippine Accounting Standards **(PAS) 28 Investments in Associates and Joint ventures:** The amendments clarify a number of aspects of PFRS 10, PFRS 12 and PAS 28 in relation to the investment entities consolidation exception:

(i) How intermediate parent entities should apply the general scope exemption from preparing consolidated financial statements provided by PFRS 10.4, when the ultimate

parent is an investment entity.

The amendments clarify that so long as the entity's ultimate (or intermediate) parent produces financial statements that are in compliance with PFRS 10 (including an investment entity that accounts for its interests in all of its subsidiaries at fair value rather than consolidating them), the exemption is available to the intermediate parent entity from presenting its own consolidated financial statements (so long as the other criteria of PFRS 10.4(a) have been met).

(ii) How an investment entity parent should account for a subsidiary that provides services related to its investment activities and is also itself an investment entity

The amendments clarify that an investment entity parent consolidates a subsidiary only when:
- The subsidiary is not itself an investment entity, and
- The subsidiary's main purpose is to provide services that relate to the investment entity's investment activities.

(iii) How PFRS 12 should be applied to an investment entity

The amendments clarify that an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss (**FVTPL**) is required to present the disclosures relating to investment entities as required by PFRS 12.

(iv) How a non-investment entity should account for its interests in any associates or joint ventures that are investment entities

The amendments clarify that for an entity that is not itself an investment entity but has an interest in an associate or joint venture that is an investment entity, the noninvestment entity may, when applying the equity method, retain the fair value measurement applied by the investment entity associate or joint venture to account for its own interests in its subsidiaries.

Amendments to PFRS 11 Joint Arrangements: The amendments require an entity to apply all of the principles of PFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined by PFRS 3.

The amendment also includes two new Illustrative Examples:
- Example 7: Accounting for acquisitions of interests in joint operations in which the activity constitutes a business
- Example 8: Contributing the right to use know-how to a joint operation in which the activity constitutes a business.

A consequential amendment to PFRS 1 *First-time Adoption of International Financial Reporting Standards* has also been made, to clarify that the exemption from applying PFRS 3 to past business combinations upon adoption of PFRS also applies to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

PFRS 14 regulatory Deferral Accounts: PFRS 14 is an interim standard, pending the outcome of the PASB's more comprehensive Rate-regulated Activities project, which was re-opened in September 2012.

In many countries, industry sectors (including utilities such as gas, electricity and water) are subject to rate regulation where governments regulate the supply and pricing. This can have a significant effect on the amount and timing of an entity's revenue. Some national Generally Accepted Accounting Principles (**GAAP**) require entities, that operate in industry sectors subject to rate regulation, to recognize associated assets and liabilities.

The scope of PFRS 14 is narrow, with this extending to cover only those entities that:

- Are first-time adopters of PFRS
- Conduct rate regulated activities
- Recognize associated assets and/or liabilities in accordance with their current national GAAP.

Entities within the scope of PFRS 14 would be afforded an option to apply their previous local GAAP accounting policies for the recognition, measurement and impairment of assets and liabilities arising from rate regulation, which would be termed regulatory deferral account balances.

Any regulatory deferral account balances, and their associated effect on profit or loss, would be recognized and presented separately from other items in the primary financial statements. As a result, for those entities that elect to adopt PFRS 14, all other line items and subtotals would exclude the effects of regulatory deferral accounts, meaning that they would be comparable with other entities that report in accordance with PFRS but do not apply PFRS 14.

Application guidance is included in PFRS 14 in respect of other PFRS that would need to be considered alongside the previous national GAAP accounting requirements in order for these regulatory deferral accounts to be accounted for appropriately in an entity's PFRS financial statements, including:

- PAS 10 Events after the Reporting Period
- PAS 12 Income Taxes
- PAS 28 Investments in Associates and Joint Ventures
- PAS 33 Earnings per Share
- PAS 36 Impairment of Assets
- PFRS 3 Business Combinations
- PFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- PFRS 10 Consolidated Financial Statements
- PFRS 12 Disclosure of Interests in Other Entities.

Amendments to PAS 1 Presentation of Financial Statements: The amendments made to PAS 1 include:

- Materiality: Aggregation or disaggregation should not obscure useful information. Materiality applies to each of the primary financial statements, the notes and each specific disclosure required by PFRS.
- Line items in primary financial statements: Additional guidance for the line items required to be presented in primary statements, in particular that it may be appropriate for these to be disaggregated, and new requirements regarding the use of subtotals.
- Notes to the financial statements: Determination of the order of the notes should include consideration of understandability and comparability of financial statements. It has been clarified that the order listed in PAS 1.114(c) is illustrative only.
- Accounting policies: Removal of the examples in PAS 1.120 in respect of income taxes and foreign exchange gains and losses.

In addition, the following amendments to PAS 1 were made which arose from a submission received by the PFRS Interpretations Committee:

- Equity accounted investments: An entity's share of other comprehensive income (**OCI**) will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those 2 groups.

Amendments to PAS 16 Property, Plant and Equipment (PPE) and PAS 38 Intangible Assets

Clarification of Acceptable Methods of Depreciation and Amortization

PAS 16 has been amended to prohibit the use of revenue-based methods of depreciation for items of PPE. This is because the revenue generated by an activity that includes the use of an item of PPE generally reflects factors other than the consumption of the economic benefits of the item, such as:

- Other inputs and processes
- Selling activities and changes in sales
- Volumes and prices, and
- Inflation.

Guidance on depreciation has been expanded to state that expected future reductions in the selling price of items produced by an item of PPE could indicate technical or commercial obsolescence (and therefore a reduction in the economic benefits embodied in the item), rather than a change in the depreciable amount or period of the item.

PAS 38 has been amended to incorporate a rebuttable presumption that Amortization based on revenue is not appropriate. The presumption can be rebutted if either:

- The intangible asset is expressed as a measure of revenue; or
- Revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to PAS 16 PPE and PAS 41 Agriculture: The amendments extend the scope of PAS 16 to include bearer plants and define a bearer plant as a living plant that:

- Is used in the production process of agricultural produce,
- Is expected to bear produce for more than one period; and
- Has a remote likelihood of being sold (except incidental scrap sales).

The changes made result in bearer plants being accounted for in accordance with PAS 16 using either:

- The cost model, or
- The revaluation model.

As such, bearer plants are no longer within the scope of PAS 41. However, the agricultural produce of bearer plants remains within the scope of PAS 41.

The amendments include the following transitional reliefs for the purposes of first time application:

- Deemed cost exemption - Entities are allowed to use the fair value of the bearer plants at the beginning of the earliest period presented as deemed cost for PAS 16 purposes.
- Disclosures - Quantitative information describing the effect of the first time application as required by PAS 8.28(f) is not required for the current reporting period, but is required for each prior period presented.

Amendments to PAS 27 Separate Financial Statements: The amendments include the introduction of an option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment.

Before the amendments, an entity accounted for its investments in subsidiaries, joint ventures or associates either at cost or in accordance with PFRS 9 *Financial Instruments* (or PAS 39 *Financial Instruments: Recognition and Measurement* for those entities that have yet to adopted PFRS 9). The option to present its investments using the equity method result in the presentation of a share of profit or loss, and other comprehensive income, of subsidiaries, joint ventures and associates with a corresponding adjustment to the carrying amount of the equity accounted investment in the statement of financial position. Any dividends received are deducted from the carrying amount of the equity accounted investment, and are not recorded as income in profit or loss.

A consequential amendment was also made to PAS 28 *Investments in Associates and Joint Ventures*, to avoid a potential conflict with PFRS 10 Consolidated Financial Statements for partial sell downs.

Amendments to PAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report': PAS 34 requires certain disclosures to be presented in the notes to the interim financial report, unless they are presented elsewhere in the interim financial report (such as a front end management report).

If the disclosures are presented 'elsewhere' in the interim financial report, such as in the management commentary or the risk report of an entity, a cross reference must be made from the notes to the interim financial statements to where the disclosures have been made. Further, if the disclosures are contained in a separate document from the interim report, that document needs to be available on the same terms and at the same time as the interim report itself.

Annual Improvements to PFRSs (2012 - 2014 Cycle)

PFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations*** **- Changes in methods of disposal**: The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal. Upon reclassification, the classification, presentation and measurement requirements of PFRS 5 are applied. If an asset ceases to be classified as held for distribution to owners, the requirements of PFRS 5 for assets that cease to be classified as held for sale apply.

PFRS 7 Financial Instruments: Disclosures: The amendments to PFRS 7 dealt with two aspects: servicing of contracts and the applicability in interim financial statements of the offsetting amendments made to PFRS 7 in December 2011.

(i) Servicing contracts

The Philippine Accounting Standards Board (**PASB**) clarified the circumstances in which an entity has continuing involvement from the servicing of a transferred asset. Continuing involvement exists if the servicer has a future interest in the performance of the transferred financial asset. Examples of situations where continuing involvement exist are where a transferor's servicing fee is:
- A variable fee which is dependent on the amount of the transferred asset that is ultimately recovered; or
- A fixed fee that may not be paid in full because of non-performance of the transferred financial asset.

The amendment is required to be applied retrospectively in accordance with PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, the amendment does not need to be applied for any period beginning before the annual period in which the entity first applies the amendments. A consequential amendment has been made to PFRS 1 First-time Adoption of International Financial Reporting Standards, in order that the same transitional provision applies to first time adopters.

(ii) Applicability of offsetting in condensed interim financial statements

A further amendment to PFRS 7 has clarified that the application of the amendment Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7) issued in December 2011 is not explicitly required for all interim periods. However, it is noted that in some cases these disclosures may need to be included in condensed interim financial statements in order to comply with PAS 34.

PAS 19 ***Employee benefits*** **- Discount rate - regional market issue**: The guidance in PAS 19 has been clarified and requires that high quality corporate bonds used to determine the discount rate for the accounting of employee benefits need to be denominated in the same currency as the related benefits that will be paid to the employee.

Entities are required to apply the amendment from the earliest comparative period presented in the financial statements, with initial adjustments being recognized in retained earnings at the beginning of that period.

Standards and amendments effective after December 31, 2016

PFRS 9 Financial Instruments (2014): In July 2014 the PASB published PFRS 9 Financial Instruments (2014) which incorporated the final requirements on all three phases of the financial instruments projects - classification and measurement, impairment, and hedge accounting. The original version of PFRS 9, issued in 2009, introduced new criteria for the classification and measurement of financial assets to be measured at amortised cost. In order to qualify for amortised cost measurement, a two stage test is applied. Firstly, the entity's business model must be to collect the contractual cash flows from the asset, rather than selling it to realise its fair value. Secondly, the asset must have contractual cash flows which are comprised solely of the principal amount due plus interest on the principal amount outstanding (which is only time value plus a margin for credit risk), often referred to as 'SPPI'. Financial assets that pass those two tests are measured at amortised cost, with all others being measured at fair value. The criteria are applied to the assets as a whole, with the previous guidance in PAS 39 Financial Instruments: Recognition and Measurement for embedded derivatives no longer applying to financial assets.

PFRS 9 (2014) introduces amendments to the previously finalised classification and measurement requirements for financial assets. A third measurement category has also been added for debt instruments - fair value through other comprehensive income (**FVTOCI**). This new measurement category applies to debt instruments that meet the Solely Payments of Principal and Interest (**SPPI**) contractual cash flow characteristics test and where the entity is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets. Additional application guidance was included to clarify the requirements for contractual cash flows of a financial asset to be regarded as giving rise to payments that are SPPI.

The classification and measurement requirements for financial liabilities were first added to PFRS 9 in 2010 and have been carried forward from PAS 39 largely unchanged, including a continuation of the requirement to separate embedded derivatives. However a significant change is that, if a financial liability is designated (under the option available in PFRS 9) as at fair value through profit or loss, changes in the fair value of that financial liability that are attributable to changes in the entity's own credit risk will typically be recorded in Other Comprehensive Income instead of profit or loss. This change has been made in order to prevent a deterioration in an entity's financial position (and hence credit status) resulting in gains being reported in profit or loss.

The existing guidance for derecognition of financial assets and liabilities has been carried forward from PAS 39 unchanged, with some improvements to disclosure requirements being added to PFRS 7 Financial Instruments: Disclosures.

For the impairment of financial assets, a new 'expected loss' model in PFRS 9 (2014) replaces the 'incurred loss' model in PAS 39. The new impairment requirements will affect all entities with financial assets that are not measured at fair value through profit or loss and are likely to bring significant changes. Provisions for trade receivables will need to be determined using a forward looking approach and, while for some entities the provisions may be relatively straightforward to calculate, the approach is significantly different and more complex in comparison to the incurred loss model, and new systems and processes may well be needed. For financial institutions the changes are likely to be very significant and require major changes to internal systems and processes in order to capture the required information.

The hedge accounting requirements of PFRS 9 are also significantly different from those set out in PAS 39, and are designed to align hedge accounting more closely with entities' risk management processes. In practice, it will be significantly more straightforward to apply hedge accounting under the new model and we expect that entities that have previously decided not to hedge account may do so in future.

The effective date of the fully completed version of PFRS 9 (2014) is for periods beginning on or after 1 January 2018 with retrospective application. Early application is permitted. If an entity's date of initial application (the start of the period in which PFRS 9 is adopted) is before 1 February 2015, there is a choice of which version of PFRS 9 to adopt (2009, 2010, 2013 or 2014). The 2009 version covered the classification and measurement of financial assets only, the 2010 version added the classification and measurement of financial liabilities and derecognition, and the 2013 version added hedge accounting.

In addition, there is an option to early adopt the 'own credit' provisions for financial liabilities measured at fair value through profit or loss (**FVTPL**) under the fair value option without any of the other requirements of PFRS 9. This option will remain available until 1 January 2018.

PFRS 15 Revenue from Contracts with Customers: In May 2014, the PASB published PFRS 15 Revenue from Contracts with Customers. The new Standard, which is fully converged with equivalent new US

GAAP guidance issued at the same time, contains comprehensive guidance for accounting for revenue and will replace existing requirements which are currently set out in two existing standards (PAS 18 Revenue and PAS 11 Construction Contracts) and related interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services).

PFRS 15 contains significantly more prescriptive and precise requirements in comparison with existing PFRS. In future, revenue will be recognised from the application of the following five steps:

1. Identify the contract
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when each performance obligation is satisfied.

The introduction of the new requirements means that for many entities the timing and profile of revenue recognition will change. In some areas the changes will be very significant and will require careful planning, including for commercial effects (such as compliance with bank covenants, performance based remuneration and business combinations).

PFRS 15 is effective for periods beginning on or after 1 January 2017, with early application permitted.

In May 2015 the PASB published Exposure Draft ED/2015/2 Effective Date of PFRS 15 which proposes to defer the effective date of PFRS 15 by one year to 1 January 2018. The reason for deferring the effective date is that additional changes to PFRS 15 will be proposed in the near future that stem from the discussions at the PASB and Financial Accounting Standards Board (**FASB**) Joint Transition Resource Group for Revenue Recognition (**TRG**). The comment deadline ended on 3 July 2015.

At its meeting on 22 July 2015, the PASB decided to defer the effective date of PFRS 15 Revenue from Contracts with Customers to periods beginning on or after 1 January 2018.

In addition the change will keep the effective date aligned with the equivalent US GAAP guidance. The FASB published Accounting Standards Update 2014-09 (ASU) on 29 April 2015, which proposes to defer the effective date of the new revenue standard by one year. At its meeting on 9 July 2015, the FASB affirmed its proposal to defer the effective date, the final ASU is expected to be published by the end of the third quarter of 2015.

PFRS 16 Leases. PFRS 16 specifies how a PFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17. PFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

2.2 Financial Instruments

Date of recognition

Financial assets and liabilities are recognized in the statement of financial condition when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and de-recognition, as applicable, is done using trade accounting or settlement date accounting.

Initial recognition

Financial assets and financial liabilities are recognized initially at fair value. Except for financial assets or financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs.

Determination of fair value

The fair value for financial instruments traded in active markets at the financial reporting date is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, discounted cash flow techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Classification of financial instruments

The Insurance Cooperative classifies its financial assets in the following categories: investment at FVPL, held-to-maturity (HTM) financial assets, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the purpose for which the investments are acquired, taking into consideration cooperative laws, rules, regulations and principles, and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

The Group's accounting policy for each category of financial instruments follows:

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading (HFT) and financial assets designated upon initial recognition as FVPL which shall comprise both debt and equity securities. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

As at December 31, 2016 and 2015, the Group had no financial assets classified under this category.

HTM financial assets

HTM financial assets refers to debt securities quoted in an active market with fixed and determinable payments and fixed maturity that the Group has the positive intention and ability to hold until maturity. Investments to be held for an undefined period are not included under this classification.

After initial measurement, these investments are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2016 and 2015, the Group had designated financial assets classified under this category (Note 6).

AFS financial assets

This includes non-derivative financial assets which are either designated in this category or are not classified in any of the other categories.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in the statement of operations. Cumulative gains/losses are presented as a component of equity until the investments are determined to be impaired or are derecognized at which time the cumulative gain or loss is included in profit or loss. Interest and dividends earned/received on holding AFS investments are recognized in profit or loss upon collection.

As at December 31, 2016 and 2015, the Group had designated financial assets classified under this category (Note 7).

Investment in non-marketable equity securities (INMES)

INMES refer to equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. INMES shall be measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the security. After initial recognition, the INMES are measured at cost. A gain or loss arising from the change in fair value of the INMES shall be recognized in the profit or loss when the security is derecognized or impaired.

As at December 31, 2016 and 2015, The Group had no financial assets classified under this category.

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 are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Loans and receivables are subsequently measured at amortized cost less probable losses, if any, and unamortized loan discounts. Amortization is determined using the diminishing balance (based on installment period) method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

As at December 31, 2016 and 2015 the Group's cash and cash equivalents, insurance receivables, and loans and receivables were included in this category (Notes 4, 5, 8, 11).

Financial liability at FVPL

Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group had not designated a financial liability at FVPL as at December 31, 2016 and 2015.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. trade payables, accruals) or borrowings (e.g. bank loans).

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. However, liabilities that have no stated interest and classified as current liabilities are measured at the undiscounted amount of cash or other consideration expected to be paid.

As at December 31, 2016 and 2015, the Group's interest on share capital, accounts payable and accrued expenses were designated as other financial liabilities (Notes 1 and 13).

Fair value measurement hierarchy

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Cooperative has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group had financial instruments valued based on Level 1 and no financial instruments valued based on levels 2 and 3 of the fair value hierarchy as at December 31, 2016 and 2015.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or c) The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Cooperative's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of financial assets

Assessment of impairment

The Group assesses every financial reporting period whether 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 if, and 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. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that the group of financial assets is collectively assessed for impairment.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Evidence of impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that it would not otherwise consider, disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults.

Impairment on assets carried at amortized cost

The allowance for probable losses on receivables is the estimated amount of losses in the Group's loan portfolio and other receivables. Allowance for probable losses is recognized when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The level of allowance is based on the higher of management's evaluation of potential losses after consideration of prevailing and anticipated economic conditions, collection and credit experience with specific accounts and an evaluation of potential losses based on management's judgment and taking into consideration cooperative laws, rules, regulations, principles and practices.

Allowance for probable losses is maintained at a level considered adequate to provide for potential losses on loans and other resources. The allowance is increased by provision charged to profit or loss and reduced by write-offs.

Impairment of assets carried at cost

If there is objective evidence of an impairment loss on an unquoted equity/debt instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity/debt instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Reversal of impairment loss

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its cost at the reversal date.

Classification of the financial instruments between debt and equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as expenses.

A financial instrument is classified as debt if it provides for a contractual obligation to: a) deliver cash or another financial asset to another entity; or b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or c) satisfy the obligation other than by exchange of a fixed amount of cash or other financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Based on the substance of the transaction and taking into consideration cooperative laws, rules, regulations and principles, members' share capital is classified as equity.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.3 Cash and cash equivalents

Cash and cash equivalents include petty cash fund, revolving fund, service car fund, cash in banks and other cooperatives, and short-term time deposits.

2.4 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to operations as they are consumed or as they expire with the passage of time.

2.5 Property and equipment

Land is measured at cost less allowance for any impairment in value and all other depreciable properties are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to expense as incurred. In situations where it can be clearly demonstrated that the expenditures have resulted to an increase in the future economic benefits expected beyond its original assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed on a straight - line method over the estimated useful lives of the assets as follows:

Components	Estimated useful life (in years)
Land improvements	5
Building and improvements	15 to 25
Office furniture, fixtures, and equipment	2 to 5
Transportation equipment	5

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued used of the asset. Any gain or loss on de-recognition of the asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations in the year the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to the statement of operations.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to other income in the statement of operations.

2.6 Investment property

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and that are not yet occupied/used by the Group. Investment properties are carried at cost less accumulated depreciation and any impairment in value. Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and any impairment in value. Depreciation is computed on the straight-line method over the estimated useful life of 25 years. Land is stated at cost less any impairment in value.

Investment properties are derecognized when either these have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.
Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of

construction or development. Transfers are made from investment property when and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

2.7 Intangible assets

Intangible assets are identifiable non-monetary asset without physical substance. The Group recognizes an item as an intangible asset if it can demonstrate that the item meets the definition of an intangible asset.

Computerization cost

Computerization costs include the costs of acquisition or development of computer programs and other software which is accounted for under the cost model. The costs of the asset comprise of the purchase price and any directly attributable costs of bringing the asset to its working condition and/or its intended use.

Capitalized costs are amortized on a straight-line basis over the estimated useful lives ranging from 2 to 3 years as the lives of these intangible assets are considered limited. Costs associated in the maintaining of computer software are expensed as incurred.

2.8 Impairment of non-financial assets

At each financial reporting date, the carrying amounts of the Group's non-financial assets (such as property and equipment and intangible assets) are reviewed to determine whether there is any indication of impairment or when impairment loss previously recognized no longer exists or may have decreased. When an indicator of impairment exists, the Group makes formal estimate of recoverable amount. An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss had been recognized. Reversals of impairment loss are recognized in profit or loss.

2.9 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 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 (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.

2.10 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 incurred up to, but not paid at the end of the year, whether reported or not.

2.11 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 exist 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 comprehensive income. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

2.12 Provisions

Provisions if any, are recognized when the Group has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. The amount recognized is the best estimate of the expenditure required to settle the present obligation at financial reporting date, that is, the amount the Group would rationally pay to settle the obligation to a third party.

2.13 Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statement. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed in the notes when an inflow of economic benefits is probable.

2.14 Members' equity

Share capital

Share capital is determined using the nominal value of shares that have been issued. The share capital is presented as equity as allowed under the financial reporting standards in the Philippines which include all applicable PFRS and taking into consideration accounting requirements under the laws, rules, regulations and principles promulgated by the CDA.

Common shares - these refer to those shares with voting rights issued by the Group to its regular members.

Preferred shares - these refer to those shares without voting rights issued by the Group to its associate and regular members.

Treasury shares - these represent shares which were bought back by the Group and held in treasury. Treasury shares are recorded based on the amount paid by the Group in acquiring those shares. These are presented as a contra-equity account in the statement of changes in equity.

Subscription receivable - this refers to the total amount of unpaid subscribed share capital of regular members. This is presented as a contra-equity account in the statement of changes in equity.

Statutory funds

Statutory funds are mandatory funds established / set up in accordance with Articles 86 and 87 of the Cooperative Code. These include all prior years' allocation of net surplus, net of interest on share capital and patronage refunds, as presented in the statement of operations. The composition of reserve funds follows:

> *General Reserve fund* - amounts set aside annually for the stability of the Group and to meet net losses in its operations. It is equivalent to at least 10% of the net surplus.
>
> *Cooperative education and training fund* - an amount retained by the Group out of the mandatory allocation as stipulated in the Group's by-laws.
>
> *Optional fund* - fund set aside from the net surplus (should not exceed 7%) for future use such as land and building, community developments, etc.
>
> *Community development fund* - This is, at the minimum, 3% of the net surplus. This is used for projects or activities that will benefit the community where the Group operates. It is equivalent to at least 3% of the net surplus.

2.15 Income recognition

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

Insurance 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.

Insurance 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 contacts using the 24^{th} 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 the insurance contract liabilities and presented in the liabilities section of the consolidation statement of financial condition. 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 condition.

Commissions

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the deferred reinsurance commissions that relate to the unexpired periods of the policies at the end of the reporting period are accounted for deferred reinsurance commissions and presented in the liabilities section.

Interest income on deposits and investments

Income is recognized as the interest accrues taking into account the effective yield on the assets.
Other income

All other income items are recognized when earned and collected.

2.16 Interest expense

Interest incurred on borrowings is recognized in the statement of comprehensive income when incurred.

2.17 Cost and expense recognition

Costs and expenses are recognized in the statement of comprehensive income: (a) when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably; (b) on the basis of a direct association between the costs incurred and the earning of specific items of income; (c) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (d) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial condition as an asset. Operating expenses are costs attributable to the general and administrative activities of the Cooperative.

2.18 Benefits and claims

Gross benefits and claims consist 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 shares in liabilities for claims are based on the estimated ultimate cost of setting 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 are recognized as income or expense of the period in which the estimates are changed or payments are made.

2.19 Leases

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

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

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

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight line basis over the lease term.

Group as lessor

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

2.20 Employee benefits

Short-term employee benefits

Short-term employee benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the financial reporting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments. Short-term benefits given by the Cooperative to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Retirement benefits

The Bank has a funded defined benefit pension plan provided based on specific level of benefit for every year of service, which comply with the minimum requirement of RA No. 7641.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

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

Defined benefit costs comprise the following: a) service cost; b) net interest on the net defined benefit liability or asset; and c) remeasurements of net defined benefit liability or asset.

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

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or when the employee accepts voluntary redundancy in exchange of these benefits.

2.21 Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. These are recognized as expense when incurred except when such costs relate to a qualifying asset, in which case, borrowing costs incurred will be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

2.22 Related parties

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its members.

2.23 Events after the end of the reporting period

Post year-end events up to the date the auditors' report that provide additional information about the Group's condition at the end of the reporting period (adjusting events) is reflected in the financial statement. Post year-end events that are not adjusting events are disclosed in the notes to the financial statement when material.

2.24 Accounts peculiar to cooperatives

The following accounts are peculiar to a cooperative due to its nature as well as adherence to cooperative laws, issued policies, rules and regulations, as well as cooperative principles and practices:

ASSETS

- Cash in Cooperative Federation - refers to money deposited in federations which are unrestricted and readily available when needed. These are treated as cash and other cash equivalents.

- Due from Accountable Officers and Employees - refers to total collectibles from shortages and other losses due from accountable officers and employees that are subject to immediate settlement/sanction. These are recognized at cost, less allowance for impairment, if any.

- Cooperative Development Cost - refers to expenses incurred prior to the actual operations of the Group. These are recognized at cost, subject to amortization for a period not exceeding 3 years.

- Other Funds and Deposits - refers to funds set aside for funding of reserves (Statutory and Other Reserves) established by the Group such as Retirement, Mutual Benefit and other

Funds. These are recorded at cost.

LIABILITIES

- Interest on Share Capital Payable - refers to liability of the Group to its members for interest on share capital, which can be determined only at the end of every year.

- Patronage Refund Payable - is the liability of the Group to its members and patrons for patronage refund, which can be determined only at the end of every year.

- Due to Union/Federation (CETF) - is an amount set aside for the education and training fund of an apex organization wherein 50% of the amount is allocated by the Group in accordance with the provision of the Group's by-laws and the Cooperative Code. The apex organization may either be a federation or union of which the Group is a member.

- Revolving Capital Payable - is the deferred payment of interest on share capital and patronage refund whose payment has been withheld, which should be agreed upon in the General Assembly.

- Project Subsidy Fund Payable - unused portion of the donation/grant for training, salaries & wages, etc.

- Mutual Benefit and Other Funds Payable - are funds for special purposes such as members' welfare & benefits (i.e. loan protection, hospitalization, death, scholarship assistance, etc. including provision for accidents not taken from net surplus).

EQUITY

- Donations/ Grants - are amounts received by the Group as awards, subsidies, grants, aids and others. This shall not be available for distribution as interest on share capital and patronage refund, and shall form part of the members' equity in the Statement of Financial Condition.

- Statutory Funds - are mandatory funds established/set up in accordance with Articles 86 and 87 of the Cooperative Code. They are as follows:

  - Reserve Fund - amounts set aside annually for the stability of the Group and to meet net losses in its operations. It is equivalent to at least 10% of the net surplus. A corresponding fund should be set up either in the form of time deposit with local banks or government securities. Only the amount in excess of the paid up share capital may be used for the expansion and authorized investment of the Group as provided for in its by-laws.

  - Education and Training Fund - an amount retained by the Group out of the mandatory allocation as stipulated in the Group's by-laws

  - Community Development Fund - This is, at the minimum, 3% of the net surplus. This is used for projects or activities that will benefit the community where the Group operates.

  - Optional Fund - fund set aside from the net surplus (should not exceed 10%) for future use such as land and building, community developments, etc.

EXPENSES

- General Assembly Meeting - expenses incurred in the conduct of regular/special general assembly.
- Members' Benefit - all expenses incurred for the benefit of the members.
- Affiliation Fee - amount incurred to cover membership or registration fees and annual dues to a federation or union.
- Social and Community Service - expenses incurred by the Group in its social community involvement including solicitations and donations to charitable institutions.
- Provision for Members' Future Benefits - amount set up for future benefit of members, such as pension of members, etc. not taken from net surplus.

OTHER ITEMS

- Project Subsidy - refers to the amount deducted from project subsidy fund to subsidize project expenses. This shall appear in the statement of operation as a contra account to Subsidized Project Expenses.
- Donation and Grant Subsidy - refers to an amount deducted from Donations and Grants account to subsidize depreciation funded by donations and grants.
- Optional Fund Subsidy - refers to an amount deducted from Optional Fund to subsidize depreciation funded by Optional Fund and /or community development expense.
- Subsidized Project Expenses - refers to a portion of the Project Subsidy Fund expended for training, salaries and wages and other activities subsidized by donations and grants.

NOTE 3 - CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statement in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statement. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the financial statement. Actual results could differ from these estimates and assumptions used. The effect of any change in estimates will be reflected in the financial statement when they become reasonably determinable.

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

The following is a summary of the significant estimates, judgments and assumptions used by the Group in the preparation of the financial statement:

3.1 Judgments

Determination of functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following: (a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled); (b) the currency in which funds from financing activities are generated; and (c) the currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine Peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the recognition and measurement of the Group's revenue and expenses.

Classification of financial instruments

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. In addition, the Group also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management's intention and ability to hold the financial instruments to maturity generally governs its classification in the statement of financial condition.

Based on the substance of the transaction and taking into consideration Group laws, rules, regulations and principles, members' share capital is classified as equity. The classification of financial assets and financial liabilities is presented in Note 21.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded as at financial reporting date cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Disclosures of fair values of the Group's financial assets and financial liabilities in a way that permit it to be compared with its carrying amounts are shown in Note 21.

Financial assets not quoted in an active market

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

Classification of acquired properties

The Group classifies its acquired properties as assets held for sale if expected that the properties will be recovered through sale rather than use, as investment properties if intended to be held for capital appreciation.

Determination of type of lease

The Group has entered into various lease agreements as a lessor and as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by lease agreements.

3.2 Estimates and assumptions

Estimating allowance for probable losses on receivables

Provisions are made for accounts identified to be doubtful of collection based on the Group's policies. The level of allowance is evaluated based on historical loss experience, current economic conditions, subsequent and possible collections and other risk factors obtained during the review of the status of existing receivables.

The carrying values of accounts receivable amounted to P68,625,925 and P36,720,989 as at December 31, 2016 and 2015, respectively (Note 8).

Estimating useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The carrying values of property and equipment amounted to P88,590,446 and P90,541,500 as at December 31, 2016 and 2015, respectively (Note 10).

Impairment of non-financial assets

The Group assesses at each reporting period whether there is an indication that its property and equipment, investment properties and intangible assets may be impaired. If any such indications exist, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. At the financial reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Based on management's assessment, the carrying amounts of its non-financial assets are recoverable as of the financial reporting date. The net book values of investment properties and property and equipment and are disclosed in Notes 9 and 10, respectively.

Estimation of the NRV of inventories

The Group provides an allowance to reduce inventories to NRV whenever the utility of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The estimate of the NRV is reviewed regularly. The Group provided no allowance for inventory obsolescence as management believes that the recorded costs were lower than their net realizable values as at December 31, 2016 and 2015.

Contingencies

The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group is a party to certain lawsuits or claims involving recoveries of sum of money arising from the ordinary course of business. However, the Group's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material impact on the Group's financial statement. These are recognized in the books only when the claims are finally settled or when judgment is rendered.

NOTE 4 - CASH AND CASH EQUIVALENTS

This consists of:

	2016	2015
	(In Philippine Peso)	
Cash in banks	**567,534,782**	442,230,366
Short-term time deposits	**229,970,535**	1,130,575
Petty cash, claims and revolving funds	**123,419,129**	87,497,197
	920,924,446	530,858,138

Cash in banks represent savings and current deposits with commercial, trust companies, thrift banks, rural banks and cooperatives earned interest at the respective deposit rates which ranged from 1.15% to 6.00% both in 2016 and 2015. Short-term time deposits earned interest ranging from 1.25% to 8.00% both in 2016 and 2015. Interest income earned from bank and cooperative deposit placements amounted to P6,510,096 in 2016 and P4,980,264 in 2015 (Note 21).

NOTE 5 - INSURANCE RECEIVABLE

This account consists of:

	2016	2015
	(In Philippine Peso)	
Premiums receivable	**46,346,450**	42,587,067
Amounts recoverable from accepting companies	**16,967,082**	19,486,295
Automatic contribution loans of Mutual Aid Services (MAS) members	**664,867**	664,867
Policy loans	**245,854**	191,767
	64,224,253	62,929,996

Premiums receivable

This pertains to receivables from member cooperatives for the insurance products they have availed.

Amounts recoverable from accepting companies

This represents the amount of reinsurance agreements with Alpha Insurance, Malayan Insurance Charter Ping-an Insurance, Stronghold Insurance, and Paramount Life and General Insurance.

Automatic contribution loans of MAS members

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.

NOTE 6 - HELD-TO-MATURITY INVESTMENTS

These consist of:

Government bonds	**630,030,621**	502,745,433
Commercial papers	**98,542,343**	156,680,708
	728,572,964	659,426,141

Government bonds consist of 7 to 25-year peso-denominated bonds issued by the Philippine Government which bears interest rates ranging from 3.625% to 8.125% per annum maturing on various dates from 2017 to 2040. Commercial papers include corporate bonds and tier 2 capital notes with commercial banks earning interest ranging from 4.71% to 6.145% per annum.

Total investment income earned amounted to P42,045,367 and P18,421,351 in 2016 and 2015, respectively (Note 21).

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

Due within 1 year	**7,730,048**	108,308,091
Due after 1 year through 5 years	**95,007,663**	169,289,597
Due after 5 years through 10 years	**243,675,912**	381,828,453
Due after 10 years through 15 years	**382,159,341**	-
	728,572,964	659,426,141

The carrying amounts of the investments were determined to approximate their fair values as at December 31, 2016 and 2015.

NOTE 7 - AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS

These consist of:

	2016	2015
	(In Philippine Peso)	
Equity managed funds	**238,323,422**	328,194,427
Equity securities (common shares)	**287,216,685**	131,505,506
	525,540,107	459,699,933

The equity managed funds represent the fair values of investments administered by a bank. This consists substantially of the investments in corporate and government bonds and other debt instruments and short-term equity investments.

The investment in security equities represents equity investments in member cooperatives and organizations, which are accounted for in the books at cost, being less than 20% of the investees' total equity. The carrying amounts of security equities were determined to approximate their fair values at December 31, 2016 and 2015.

NOTE 8 - LOANS AND RECEIVABLES

These consist of:

	2016	2015
	(In Philippine Peso)	
Accounts receivable - others - net	**63,689,027**	33,373,592
Accrued investment income	**2,745,975**	3,347,397
Advances to officers and employees	**2,190,923**	-
	68,625,925	36,720,989

Accounts receivable- others - net

This represents the receivable from various accounts, mortgage loans and equity loans provided by the Group to its officers and employees.

The Group provided allowance for impairment losses on its loans and receivables amounting to P4,588,943 in 2016 and nil in 2015. The reconciliation of the account follows:

Balance, January 1	**15,387,275**	15,387,275
Provisions	**4,588,943**	-
Balance, December 31	**19,976,218**	15,387,275

NOTE 9 - INVESTMENT PROPERTY - NET

The details of this account follows:

2016

	Land	Building and improvements	TOTAL
		(In Philippine Peso)	
Cost			
At January 1	69,756,771	38,643,531	108,400,302
Additions	38,164,856	2,119,537	40,284,393
At December 31	**107,921,627**	**40,763,068**	**148,684,695**
Accumulated Depreciation			
At January 1	-	3,495,794	3,495,794
Depreciation	-	298,470	298,470
Disposals/Reclassification		(3,311,587)	(3,311,587)
At December 31	-	**482,677**	**482,677**
Net Book Value	**107,921,627**	**40,280,391**	**148,202,018**

2015

	Land	Building and improvements	TOTAL
Cost			
At January 1	4,446,000	38,250,100	42,696,100
Additions	65,310,771	393,431	65,704,202
At December 31	69,756,771	38,643,531	108,400,302
Accumulated Depreciation			
At January 1	-	1,747,897	1,747,897
Depreciation	-	1,747,897	1,747,897
At December 31	-	3,495,794	3,495,794
Net Book Value	69,756,771	35,147,737	104,904,508

The investment property includes a piece of land with 2-storey building located along Tiano and Pacana Streets in Cagayan de Oro City which are being leased out to business establishments. Rental income earned on the property amounted to P4,045,060 and P1,519,303 in 2016 and 2015, respectively.

NOTE 10 - PROPERTY AND EQUIPMENT - NET

The details of property and equipment follow:

2016

	Land and improvements	Building and improvements	Office furniture, fixtures & equipment	Transportation equipment	TOTAL
			(In Philippine Peso)		
Cost					
At January 1, 2016	21,048,521	54,246,577	44,219,781	20,250,433	139,765,312
Additions	284,975	4,498,941	8,239,953	6,064,069	19,087,938
Reclassification/Disposal	267,281	134,976	(1,945,009)	290,698	(1,252,054)
At December 31, 2016	**21,600,777**	**58,880,494**	**50,514,725**	**26,605,200**	**157,601,196**

2016	**Land and improvements**	**Building and improvements**	**Office furniture, fixtures & equipment**	**Transportation equipment**	**TOTAL**
Accumulated depreciation					
At January 1, 2016	3,281,751	15,479,986	22,566,199	7,895,876	49,223,812
Depreciation	1,200,703	4,424,363	6,127,468	4,403,273	16,155,807
Reclassification/Disposal	(129,919)	3,106,449	515,465	139,136	3,631,131
At December 31, 2016	**4,352,535**	**23,010,798**	**29,209,132**	**12,438,285**	**69,010,750**
Net Book Value	**17,248,242**	**35,869,696**	**21,305,593**	**14,166,915**	**88,590,446**

2015

Cost						
At January 1, 2015	19,803,480	51,983,085	30,540,894	15,658,882	720,971	118,707,312
Additions	1,245,041	1,542,521	13,678,886	6,265,401	-	22,731,849
Disposal/Reclassification	-	720,971	-	(1,673,850)	(720,971)	(1,673,850)
At December 31, 2015	21,048,521	54,246,577	44,219,780	20,250,433	-	139,765,311
Accumulated depreciation						
At January 1, 2015	-	13,665,731	14,601,898	6,239,669	-	34,507,298
Provisions	3,281,750	1,814,255	7,964,301	2,678,918	-	15,739,224
Disposal/Reclassification	-	-	-	(1,022,711)	-	(1,022,711)
At December 31, 2015	3,281,750	15,479,986	22,566,199	7,895,876	-	49,223,811
Net Book Value	17,766,771	38,766,591	21,653,581	12,354,557	-	90,541,500

The management believes that there is no indication of impairment on the Group's property and equipment and that its net carrying amount can be recovered through use in operations.

Fully depreciated assets with a cost of P19,740,866 and P17,580,219 as at December 31, 2016 and 2015, respectively, were still being used by the Insurance Cooperative.

NOTE 11- OTHER ASSETS

This account consists of:

	2016	2015
	(In Philippine Peso)	
Refundable deposits	**4,716,090**	6,565,905
Deferred debits	**4,750,751**	2,034,643
Deposits and placements with banks under receivership	-	299,941
Others	**2,859,411**	6,793,370
	12,326,252	15,693,859

Refundable deposits

This represents the security rent deposit on investment properties of the Group that are refundable at the end of the contract.

Deferred debits

Unidentified charges temporarily presented as deferred debits to be reconciled in the following periods.

Deposits and placements with banks under receivership

The deposits and placements with banks under receivership have been processed for insurance claims from PDIC.

Others

This represents the prepayments of power, light and water, insurance and rent, accrual of rent income, computerization cost and other assets.

NOTE 12 - INSURANCE CONTRACT LIABILITIES AND INSURANCE PAYABLES

These consist of:

	2016	2015
	(In Philippine Peso)	
Actuarial liabilities		
Aggregate reserves for life policies	**562,756,145**	391,939,634
Unearned premium reserve	**95,281,943**	73,377,043
Total	**658,038,088**	465,316,677
Insurance payables	**291,944,332**	220,069,267
	949,982,420	685,385,944

Aggregate reserves for life policies

The amount of insurance contract liabilities (legal policy reserves) and other actuarial items in the financial statement for the years ended December 31, 2016 and 2015, have been computed and certified by the Consulting Agency of the Group 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.

Unearned premium reserve

This account represents 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 the settlement and incurred by not reported claims.

NOTE 13 - TRADE AND OTHER PAYABLES

This account consists of:

	2016	2015
	(In Philippine Peso)	
Accounts and accrued expenses	**111,493,747**	83,565,434
Endowment trust fund	**21,824,765**	22,748,023
Deferred premium income	**19,552,702**	39,218,290
Premium advance deposit	**11,484,419**	26,566,172
Rental deposits	-	827,811
Deferred Credits	-	813,563
	164,355,633	173,739,293

Accounts and accrued expenses

This account represents various payables to suppliers, payable to collection agents and recognition of accrued expenses.

Endowment trust fund

This account represents the contributions of 60 member-cooperatives intended to finance the operations of CLIMBS Institute of Financial Literacy, an institute established by the Parent Cooperative in 2012 dedicated to respond to the training needs of the members.

Deferred premium income

This account represents the temporary account premium received by the Parent Cooperative that is identifiable to the member-cooperative contributions.

Premium advance deposit

This represents the overpayment of member-cooperative for the product availed.

NOTE 14 - SHARE CAPITAL

The Group's share capital consists of:

Preferred Shares - ₱ 1,000 Par Value		
Authorized - 200,000 shares		
Issued - 200,000 shares in 2016 and 143,384 shares in 2015	**200,000,000**	143,384,000
Common Shares - ₱ 1,000 Par Value		
Authorized - 800,000 shares		
Issued - 800,000 shares in 2016 and 506,294 shares in 2015	**800,000,000**	506,294,000
Treasury Stocks	**(40,469,097)**	(5,317,966)
Deposits for future subscriptions	**168,523,757**	784
	1,128,054,660	644,360,818

The reconciliation of the number of shares outstanding at the beginning and at the end of the financial reporting period follows:

Preferred shares

	2016	2015
Balance, January 1	143,384	90,996
Additional subscription/issuance	56,616	52,388
Balance, December 31	200,000	143,384

Common shares

Balance, January 1	506,294	339,148
Additional subscription/issuance	293,706	167,146
Balance, December 31	800,000	506,294

The Group is in compliance with the fixed capitalization requirements of Insurance Commission in 2016 and 2015 (Note 22).

NOTE 15 - STATUTORY RESERVES

The Group's statutory reserves consist of the following:

	(In Philippine Peso)	
General reserve fund	77,638,317	53,202,209
Cooperative education and training fund	24,435,530	14,604,412
Optional fund	57,235,152	38,505,535
Community development fund	16,494,098	10,435,742
	175,803,097	116,747,898

In accordance with the Group's By-Laws, the General Reserve Fund (GRF), which receives 10% allocation every year from the net surplus of the Group, is intended for the stability of the Group and to meet net losses in its operations. The General Assembly may decrease the amount allocated to GRF when the Fund already exceeds the share capital. Such excess may be used at any time, 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 cannot decide upon the disposal of the Fund, the same shall go to the federation or union to which the Group is affiliated.

The Cooperative Education and Training Fund (CETF) is intended for the education and training and other purposes of the Group. 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.

The Optional Fund also receives not more than 7% allocation from the net surplus of the Group every year, intended for land and building, and other necessary funds.

The Community Development Fund, at the minimum, receives 3% of the net surplus. This is used for projects or activities that will benefit the community where the Group operates.

NOTE 16 - RETIREMENT PLAN (ASSET) LIABILITY

The Insurance Cooperative Employees Retirement Plan is non-contributory and discount benefits provided by the plan using the Projected Unit Credit Method covering all regular and full-time employees entitled to all benefits provided for under the policies formulated by BOD with consideration to RA No. 7641. Contribution and cost are determined in accordance with actuarial studies made for the plan.

The actuarial valuation of plan assets and the present value of the defined benefit obligation as of December 31, 2016 were computed by an independent licensed actuary and released results thereof on March 10, 2017.

The principal annual actuarial assumptions used in determining retirement benefit obligation of the Insurance Cooperative for the year ended December 31, 2016 and 2015 follow:

	2016	2015
Discount rate	**5.18%**	5.13%
Future salary increase	**5%**	5%
Average remaining working lives of employees	**17.42**	17.24 years

The overall expected rate of return on plan assets is determined based on market prices prevailing on that date applicable to the year over which the obligation is to be settled.

The sensitivity analysis below had been determined based on the reasonably possible changes in the significant assumption on the retirement benefit obligation as at December 31, 2016, assuming if all other assumptions were held constant:

	Change in assumption	**Defined benefit obligation (DBO)**	**Increase (decrease) in DBO**
		(in Philippine Peso)	
Discount rate	**Decrease by 1%**	**21,325,264**	**3,205,327**
Salary increase rate	**Increase by 1%**	**21,096,712**	**2,976,775**
Mortality rate	**Increase by 10%**	**17,955,760**	**(164,177)**

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

Year 1	**498,825**	1,457,848
Year 2	**658,566**	371,376
Year 3	**669,532**	529,049
Year 4	**1,114,969**	499,331
Year 5	**1,848,019**	825,340
Year 6	**2,567,279**	1,223,533
Year 7	**1,494,643**	2,265,666
Year 8	**1,537,112**	1,088,232
Year 9	**3,425,739**	1,187,508
Year 10	**1,087,779**	2,456,237
	14,902,463	11,904,120

Retirement (asset) liability recognized in the statement of financial condition as of December 31, 2016 and 2015 follows:

	2016	2015
	(In Philippine Peso)	
Present value of obligation	**18,119,937**	12,775,958
Fair value of plan assets	**12,568,322**	14,225,631
	5,551,615	(1,449,673)

Changes in the present value of retirement benefit obligation follow:

At January 1	**12,775,958**	11,293,897
Current service cost	**1,718,053**	1,475,321
Interest cost	**655,400**	526,485
Actuarial (gain) loss on change in assumption	**2,970,526**	(519,745)
At December 31	**18,119,937**	12,775,958

Changes in the fair value of plan assets follow:

At January 1	**14,225,631**	14,333,692
Actual return	**(1,657,309)**	(108,061)
At December 31	**12,568,322**	14,225,631

Retirement expense recognized in the statement of comprehensive income as of December 31, 2016 and 2015 follows:

Current service cost	**1,718,053**	1,475,321
Net interest cost	**(74,367)**	(141,706)
	1,643,686	1,333,615

NOTE 17 - DETAILS OF GENERAL AND ADMINISTRATIVE EXPENSES

The details of the account follow:

General support services	**24,118,615**	14,954,624
Meetings, conferences and general assembly	**13,964,371**	11,799,553
Travel and transportation	**13,922,053**	9,726,749
Advertising, promotion and networking	**5,852,605**	9,395,859
Communications	**5,102,555**	4,680,152
Light and power	**2,752,822**	3,499,447
Office supplies	**2,624,606**	3,447,179
Repairs and maintenance	**2,118,445**	3,088,897
Security services	**2,054,272**	2,489,400
Insurance	**526,403**	1,090,215
License fees and membership dues	**419,532**	920,617
Taxes and licenses	**396,354**	457,198
Bank charge	**34,014**	337,536
Miscellaneous	**2,230,324**	1,771,849
	76,116,971	67,659,275

NOTE 18 - DETAILS OF SALARIES, WAGES AND OFFICERS' AND EMPLOYEES' BENEFIT

The details of the account follow:

Salaries and wages	**39,702,829**	30,376,287
Uniforms and other employees' benefit	**19,884,895**	19,650,059
SSS, PHIC and HDMF counterpart contributions	**1,915,322**	2,333,528
Retirement contributions (Note 16)	**1,643,686**	1,333,615
	63,146,732	53,693,489

NOTE 19 - RELATED PARTY TRANSACTIONS

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

In the ordinary course of its operations, the Group transacts directly or indirectly with its related parties. Significant related party transactions include the following:

Significant transactions with related parties

a. The significant transactions with related parties and their effect on the Group's financial statements for the years ended December 31, 2016 and 2015 follow:

Related Parties	Cut-off Period	Gross earned premiums on insurance contracts *(In Philippine Peso)*
Member	**December 31, 2016**	**1,548,492,134**
	December 31, 2015	1,317,686,448

b. The amount of outstanding balances, including their terms and conditions, security, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received are as follows:

Related Parties	Relationship	Cut-off Period	Premium receivable	Terms and Conditions	Nature of Consideration to be Provided Upon Settlement
Member	Officers	**December 31, 2016**	**24,193,800**		**Cash**
		December 31, 2015	19,418,684		Cash

No allowances for probable losses were provided for loans to related parties as at December 31, 2016 and 2015.

Key management compensation

Compensation of the Group's key management personnel consists of salaries and wages and other short-term benefits amounted to P5,571,531 and P3,952,260 for the years ended December 31, 2016 and 2015, respectively.

NOTE 20 - RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through process of ongoing identification, measurement and monitoring subject to risk limits and other controls.

Risk management is carried out by the management under policies approved by the BOD. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as liquidity risk, credit risk, interest rate risk and investment of excess liquidity taking into consideration laws, rules, regulations and principle. 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 risk to a reinsurer. The Group has reinsurance agreements with Alpha Insurance, Malayan Insurance Charter Ping-an Insurance, Stronghold Insurance, and Paramount Life and General Insurance, however, the Group is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that the reinsurer is unable to meet its obligation 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 that 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 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 the 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 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 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 Philippines peso, its functional currency.

Credit risk

Credit risk is the risk that counterparty will default and or fail to honor its financial or contractual obligations, resulting in financial loss to the Group.

The Group's policies and procedure are placed to manage its credit risks: (a) Net exposure limit are set for each counterparty or group of counterparties and industry segment (i.e. limits are set for investment and cash deposits, foreign exchange rate exposures and minimum credit rating for investments that may be held); (b) guidelines are provided to determine when to obtain collateral and guarantees; and (c) maximum amounts and limits that may be advances to corporate counterparties by reference to their long term credit ratings are also set.

The Group's maximum exposure to credit risk before collateral held or other credit enhancements as at December 31 follows:

	2016	2015
	(In Philippine Peso)	
Cash and cash equivalents (Note 4)	912,607,246	522,858,138
Premium receivables (Note 5)	64,224,253	62,929,996
Held to maturity investments (Note 6)	728,572,964	659,426,141
Available for sale securities (Note 7)	525,540,107	459,699,933
Loans and receivables (Note 8)	68,625,925	36,720,989
	2,299,570,495	1,741,635,197

Aging analysis and credit quality per class of financial assets

The credit quality of financial assets is determined based on the Group's historical experience and nature of the counterparty.

The table below shows the aging analysis and the credit quality by class of financial assets (gross of allowance for probable losses) as at December 31, 2016 and 2015.

	December 31, 2016				
			Past due but not impaired		Impaired
	Total	Neither past due nor impaired	(1-30 days)	31-365 days	More than 365 days
			(In Philippine Peso)		
Cash and cash equivalents (Note 4)	**920,924,446**	**920,924,446**	-	-	-
Premium receivables (Note 5)	**64,224,253**	**64,224,253**	-	-	-
Held to maturity investments (Note 6)	**728,572,964**	**728,572,964**	-	-	-
Available for sale securities (Note 7)	**525,540,107**	**525,540,107**	-	-	-
Loans and receivables (Note 8)	**88,602,143**	**68,625,925**	-	-	**19,976,218**
	2,327,863,913	**2,307,887,695**	-	-	**19,976,218**

	December 31, 2015				
			Past due but not impaired		Impaired
	Total	Neither past due nor impaired	(1-30 days)	31-365 days	More than 365 days
			(In Philippine Peso)		
Cash and cash equivalents (Note 4)	530,858,138	530,858,138	-	-	-
Premium receivables (Note 5)	62,929,996	62,929,996	-	-	-
Held to maturity investments (Note 6)	659,426,141	659,426,141	-	-	-
Available for sale securities (Note 7)	459,699,933	459,699,933	-	-	-
Loans and receivables (Note 8)	52,108,264	36,720,989	-	-	15,387,275
	1,765,022,472	1,749,635,197	-	-	15,387,275

The tables below show the credit quality by class of neither past due nor impaired financial assets (gross of allowance for probable losses) as of December 31, 2016 and 2015:

	December 31, 2016			
	Neither past due nor impaired	High grade	Standard grade	Substandard grade
		(In Philippine Peso)		
Cash and cash equivalents (Note 4)	**920,924,446**	**920,924,446**	-	-
Premium receivables (Note 5)	**64,224,253**	**64,224,253**	-	-
Held to maturity investments (Note 6)	**728,572,964**	**728,572,964**	-	-
Available for sale securities (Note 7)	**525,540,107**	**525,540,107**	-	-
Loans and receivables (Note 8)	**88,602,143**	**68,625,925**	-	**19,976,218**
	2,327,863,913	**2,307,887,695**	-	**19,976,218**

	December 31, 2015			
	Neither past due nor impaired	High grade	Standard grade	Substandard grade
		(In Philippine Peso)		
Cash and cash equivalents (Note 4)	530,858,138	530,858,138	-	-
Premium receivables (Note 5)	62,929,996	62,929,996	-	-
Held to maturity investments (Note 6)	659,426,141	659,426,141	-	-
Available for sale securities (Note 7)	459,699,933	459,699,933	-	-
Loans and receivables (Note 8)	52,108,264	36,720,989	-	15,387,275
	1,765,022,472	1,749,635,197	-	15,387,275

Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due because of inability to liquidate assets or obtain adequate funding.

The Group's objective to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

The Group seeks to manage its liquidity profile to be able to finance its operation and capital expenditures. To cover its financing requirements, it intends to use internally generated funds and proceeds from investments and assets. Management also monitors the market price risk arising from all financial instruments.

The analysis of maturity profile of the Group's financial assets and liabilities as at December 31, 2016 and 2015 follows:

	December 31, 2016		
		Maturity	
	Within 1 year	Beyond 1 year	Total
		(In Philippine Peso)	
Cash and cash equivalents (Note 4)	920,924,446	-	920,924,446
Premium receivables (Note 5)	64,224,253		64,224,253
Held to maturity investments (Note 6)	7,730,048	720,842,916	728,572,964
Available for sale securities (Note 7)	525,540,107	-	525,540,107
Loans and receivables (Note 8)	68,625,925	-	68,625,925
	1,587,044,779	720,842,916	2,299,570,495
Insurance contact liabilities (Note 12)	658,038,088	-	658,038,088
Insurance payables (Note 12)	291,944,332	-	291,944,332
Trade and other payables (Note 13)	164,355,633	-	164,355,633
Interest on capital, patronage, and experience refund payable (Note 1)	108,855,465	-	108,855,465
	1,223,193,518	-	1,223,193,518
	363,851,261	720,842,916	1,084,694,177

	December 31, 2015		
		Maturity	
	Within 1 year	Beyond 1 year	Total
		(In Philippine Peso)	
Cash and cash equivalents (Note 4)	530,858,138	-	530,858,138
Premium receivables (Note 5)	46,686,087	16,243,909	62,929,996
Held to maturity investments (Note 6)	108,308,091	551,118,050	659,426,141
Available for sale securities (Note 7)	459,699,933	-	459,699,933
Loans and receivables (Note 8)	3,347,397	33,373,592	36,720,989
	1,148,899,646	600,735,551	1,749,635,197
Insurance contact liabilities (Note 12)	465,316,677	-	465,316,677
Insurance payables (Note 12)	220,069,267	-	220,069,267
Trade and other payables (Note 13)	173,739,293	-	173,739,293
Interest on capital, patronage, and experience refund payable (Note 1)	73,731,433	-	73,731,433
	932,856,670	-	932,856,670
	216,042,976	600,735,551	816,778,527

Market risks

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group is subject to certain market risks, including risks from changes in interest rates and currency exchange rates. There have been no changes to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk

Currency risk arises when transactions are denominated in foreign currencies.

The Group is not exposed to significant foreign currency risk given that financial assets and liabilities are denominated in the Group's functional currency.

NOTE 21 - FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

The following tables summarize the carrying values and fair values of the Group's financial assets and financial liabilities by class:

	December 31, 2016		December 31, 2015	
	Carrying values	Fair values	Carrying values	Fair values
Cash and cash equivalents (Note 4)	920,924,446	920,924,446	530,858,138	530,858,138
Premium receivables (Note 5)	64,224,253	64,224,253	62,929,996	62,929,996
Held to maturity investments (Note 6)	728,572,964	728,572,964	659,426,141	659,426,141
Available for sale securities (Note 7)	525,540,107	525,540,107	459,699,933	459,699,933
Loans and receivables (Note 8)	68,625,925	68,625,925	36,720,989	36,720,989
	2,299,570,495	2,299,570,495	1,749,635,197	1,749,635,197
Insurance contact liabilities (Note 12)	658,038,088	658,038,088	465,316,677	465,316,677
Insurance payables (Note 12)	291,944,332	291,944,332	220,069,267	220,069,267
Trade and other payables (Note 13)	164,355,633	164,355,633	173,739,293	173,739,293
Interest on capital, patronage, and experience refund payable (Note 1)	108,855,465	108,855,465	73,731,433	73,731,433
	1,224,731,645	1,224,731,645	932,856,670	932,856,670

The methods and assumptions used by the Group in estimating the fair value of financial instruments follow:

Cash in banks, receivables, advances to land-owner and supplier, interest on share capital, accounts payable and accrued expenses. Carrying amounts approximate its fair values in view of the relatively short-term maturities of these financial instruments.

The fair value of loans payable is based on its carrying amount which approximates the discounted value of future cash flows using interest rates ranging from 6% to 10%.

Items of income, expense, gains or losses on financial assets and financial liabilities

Items of income, expense, gains or losses recognized with respect to financial assets and financial liabilities in the statement of operations follow:

	2016	2015
	(in Philippine Peso)	
Total interest income on financial assets measured at amortized cost		
Investment income (Note 6)	42,045,367	18,421,351
Cash in banks (Note 4)	6,510,096	4,980,264
	48,555,463	23,401,615

The Group had no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed fell under levels 1 and 3 category as at December 31, 2016 and 2015. There were no transfers from and out of level 2 to other category levels during the year 2016.

The following tables summarize the carrying amounts and fair values of the Group's assets and liabilities which are either measured at fair value or for which fair values are disclosed:

	December 31, 2016				
		Fair Value			
	Carrying value	Level 1	Level 2	Level 3	Total Fair Value
			(In Philippine Peso)		
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Financial assets					
AFS financial assets	525,540,107	525,540,107	-	-	525,540,107
Non-financial assets					
Investment properties	148,202,018	-	148,202,018	-	148,202,018

	December 31, 2015				
		Fair Value			
	Carrying value	Level 1	Level 2	Level 3	Total Fair Value
			(In Philippine Peso)		
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Financial assets					
AFS financial assets	459,699,933	459,699,933	-	-	459,699,933
Non-financial assets					
Investment properties	104,904,508	-	104,904,508	-	104,904,508

NOTE 22- CAPITAL MANAGEMENT

The Group maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect its members. The Group's BOD 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 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 requirements and RBC requirements.

Margin of solvency

Under the Insurance Code, the insurance company doing business in the Philippines shall maintain at all times a MOS equal to P500,000 or 10% of the total amount of its net premium written during the 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 (DOF) 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 IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On June 1, 2012, the DOF Order No. 15-2012 was issued establishing 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:

(In Philippine Peso)	
250,000,000	On or before December 31, 2012
400,000,000	On or before December 31, 2014
600,000,000	**On or before December 31, 2016**
800,000,000	On or before December 31, 2018
1,000,000,000	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 "Insurance Code", as amended by Presidential Decree Nos. 1141, 1280, 1455, 1460, 1814, and 1981, and Batas Pambansa Blg. 874,, 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 P1.0 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 P250,000,000. Furthermore, said company must have by December 31, 2016, an additional P300,000,000 in net worth; by December 31, 2019, and additional P350,000,000 in net worth and by December 31, 2022, and additional P400,000,000 in net worth.

In accordance with Chapter XIII- Insurance Cooperative Code, 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 CDA 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. The Republic Act 10607, however, has not addressed this matter.

At the end of 2016, the Group's paid up capital amounted to P1,128,054,660, an amount more than the requirement of Republic Act 10607 for paid up capital on or before December 31, 2016.

RBC requirements

In October 2006, the IC 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 the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum 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 ration 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.

NOTE 23 - EVENT AFTER THE REPORTING PERIOD

The financial statements in 2016 were approved for final release by the Board of Directors (BOD) in its meeting held on April 3, 2017.

ASIAN ACTUARIES INC.

STATEMENT OF OPINION

I, Panfilo P de la Paz, consulting actuary of CLIMBS, express the opinion that, based on the data supplied to me by the Accounting and IT Departments of CLIMBS, the legal certificate/policy reserves and claim reserves of the Cooperative as of 31 December 2016 amounting to

P **554,318,832.56** (individual/group life insurance contracts)
P **8,437,312.49** (MAS plan)
P **271,724,343.58** (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. The due and unpaid policy and contract claims were derived solely from the inventory of such claims conducted by CLIMBS as of December 31, 2016. The Incurred But Not Reported (IBNR) reserves was derived using the chain-ladder method on claims recorded for the last 24 months. Loss development factors was derived by taking the simple average of the smallest 12 duration factors.

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

16 March 2017

11/F VGP Center (formerly ManilaBank Bldg.) Ayala Ave., Makati City
Tel: 810-1058 & 752-0963 Fax: 810-1058

ASIAN ACTUARIES INC.

ANNEX "A"

A. Assets

1. Net life insurance premiums and annuity considerations due and uncollected	**2,176,432.36**
2. Accident and health premiums due and uncollected	**Nil**

B. Liabilities

1. Aggregate reserve for life policies and contracts	**554,318,832.56**
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	**93,280,289.74**
4.2 In course of settlement:	
4.2.1 Resisted	**23,784,708.79**
4.2.2 Others	**Nil**
4.3 Incurred but not unreported (less reinsurance)	**154,659.345.05**
4.4 Total (Gross)	**271,724,343.58**
4.5 Add: Reinsurance assumed on reported claims	**Nil**
4.6 Less: Reinsurance ceded on reported claims	**Nil**
4.7 Net Liability	**271,724,343.58**

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 **8,437,312.49**

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
2016 Valuation Results

11/F VGP Center (formerly ManilaBank Bldg.) Ayala Ave., Makati City
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ASIAN ACTUARIES INC.

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 IT 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 2016 amounting to **2,034,200.10** 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
Consulting Actuary
PTR No 3941

9 March 2017

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AUDIT COMMITTEE REPORT

To all our Valued Cooperators:

Greetings!

CLIMBS Life and General Insurance Cooperative is now on its 45th year of fruitful existence and service to our community. The Audit Committee will continue to be vigilant in its oversight function in aide to the Board of Directors considering the present economic environment. The present economic trend requires the Board and the Committee Members to be informed of the recent developments in the financial markets specifically on insurance business and be proactive, informed investigative and accountable.

As we continue to safeguard the investments of our primary cooperatives with nationwide business coverage, the Audit Committee is thankful that an Internal Audit Team was created and now functional. Thus, the conduct of Periodic Audit Nationwide becomes easier for review of internal control and monitoring of Risk Management System.

To ensure adherence with the Cooperative principles and observance with the Rules and Regulations mandated by the Insurance Commission, it is with the Audit Committee's responsibility to review the company's internal control and risk management. It also check the performance of the cooperative and its financial status, periodically review its book of accounts and other financial records and ensure that it conforms with the financial reporting standards for cooperatives in the Philippines and ensure that is in accordance with the law, rules and regulations particularly in RA 9520 otherwise known as "The Philippine Cooperative Code of 2008". We also took note of the various memorandum circulars and other pertinent guidelines promulgated by the Cooperative Development Authority (CDA).

The Committee with its oversight functions in aide to the Board reiterates that is does not act as police to the Management but assists Management proactively. It recommends improvements and establishes policies where the internal control weakens or outdated.

The Audit Committee reviewed the previous Audit Exceptions, Interim Audit done by External Auditors and verified Management actions and compliance to recommendations. We humbly submit to the General Assembly the results of our Audit Activities for the Year under review summarized under the following key issues:

Governance:

The Audit Committee plays critical role in establishing the tone at the top. It is the committees' responsibility to monitor that tone as well as ethical environment and compliance with laws and regulations on how CLIMBS is directed or controlled. With the Compliance Officer in an organization as required by the Insurance Commission, compliance to regulatory requirement are well monitored.

The Committee reviewed the policies and guidelines prepared and implemented by the Management in its operations. Thus the following Manual policies were finalized and approved, which should be reviewed at least every 3 year or as need arises.

1. Code of Ethics (For approval of the General Assembly)
2. Travel Policies and Procedures
3. Property, Equipment and Acquisition Policies
4. Human Resource Policy; still for review are the Policy on Hiring, Selection Placement & Trainings and Investment Policy

The following Committees were also created to aide Management in its operations: Renumaration Committee (as required by Insurance Commission) and Policy and Amendments Committee.

Internal Control:

Per our review and assessments of the Internal Control, the Management has established and maintained adequate accounting records and internal control procedures to safeguard our asses in CLIMBS. The committee observed some enhancement in the computerization in collection system which improved their collection performance.

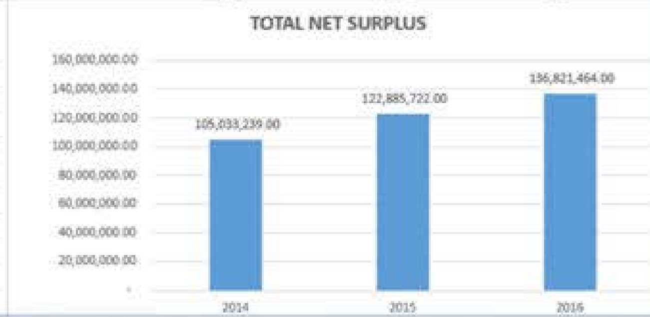
As part of the Internal Control, the Committee recommended the separation of Internal Audit as distinct function from the Compliance Office and that the Internal Audit be functionally under the Audit Committee while administratively under Management.

Financial Highlights:

Our insurance cooperative is in adherence to the standards as mandated by the Insurance Commission as the government regulatory agency taking note of the legal reserves and the required capitalization. Based on observations on the authorized share capitalization, the recommended increase last year had been fully subscribed, hence the need to increase again its capitalization as follows:

		From		To
Common Shares	P	800 M	P	2.5 B
Preferred Shares		300 M		500M

During the year under review CLIMBS reached a total asset P2.5 B which is higher by 30.41% of the previous year. The net worth also increased to P 1.3B from P 1.02B or a 30.37% growth in percentage. Management was able to earn a consolidated net income of P138M which registered as 13.03 % increase from the previous year. Comparative data are as follows:



Debt to equity ratio and Margins of Solvency are above standards. Detailed financial analysis and ratios are presented below:

RATIO ANALYSIS	INSURANCE COOPERATIVE STANDARD	2016	2015	REMARKS
Debt/Equity Ratio	<100%	91%	91%	WITHIN STANDARD
Current Ratio	>1	1.05	1.23	ABOVE STANDARD
Margin of Solvency	>100%	210%	122%	ABOVE STANDARD

CAPITAL STRUCTURE – INSURANCE CODE	MINIMUM REQUIREMENTS	2016	2015	REMARKS
Paid-Up Capital	2016 – P600,000.00 2015 – P600,000.00	P1,128,054,660	P 644,360,818	COMPLIANT COMPLIANT
Net Worth	2016 – P550,000.00 2015 – P550,000.00	P1,341,965,284	P1,029,368,067	COMPLIANT COMPLIANT
Reserve Requirements	2016 – P137,500.00 2015 – P137,500.00	P 568,523,758	P 502,745,433	COMPLIANT COMPLIANT
Risk Based Capital Ratio	2016 - >100% 2015		N/A	

PROFITABILITY PERFORMANCE	CDA STANDARD	2016	2015	STANDARD POINTS	POINTS EARNED 2016
Profitability Ratio	>30%	9.15%	9.60%	5	2
Earnings per Share Ratio	>P250	P111.65	P171.03	5	2
Asset Efficiency Ratio	>20%	5%	6%	5	2
Rate of Interest in Share Capital	>Inflation Rate	11%	11%	5	5

INSTITUTIONAL STRENGTH	CDA STANDARD	2016	2015		
Net Institutional Capital	>10%	25%	13%	6	6

STRUCTURE OF ASSETS	CDA STANDARD	2016	2015		
Percentage of Non-Earning Assets to Total Assets	<10%	6%	10%	5	5
Members' Equity o Total Assets	40%-50%	45%	34%	5	5
External Borrowings	0%	None	None	5	5

STRUCTURE OF ASSETS	CDA STANDARD	2016	2015		
Volume of Business to Total Assets	100% of company target	60%	69%	5	3
Solvency	>110%	224%	297%	5	5
Liquidity	15%-30%	30%	23%	5	5
Cost per Volume of Business	<.25	0.44	0.40	5	1
Administrative Efficiency	<10%	26%	30%	5	0
		TOTAL		66	46

With thanksgiving and praises to our Almighty God for another fruitful year, we commend the Management and Staff for the immediate actions done to implement the recommended improvements to strengthen our internal control and mitigate risk in our operations.

Lastly, we thank all the members and affiliates for their continued support and patronage of CLIMBS products and services.

Happy 45th Annual General Assembly!

(Sgd)
DORIS B. CALAPIZ, CPA
Chairperson

JUANITO P. ROSINI, PH. D.
Vice-Chairperson

MIRIAM R. BALDOYO, CPA
Secretary

Report of the Election Committee

I. Foreword

The Election Committee is tasked to supervise all election and election related activities of CLIMBS. As such it must ensure that an effective election guideline is present and is strictly implemented to ensure that discipline and proper election and appointment of officers are done.

II. Approved Amendments to our Election Guidelines as Approved During the Last GA on April 2016 (which are to be implemented this 2017 GA).

1. The strict implementation of the "one officer, one coop" policy. It means that no two representatives from 1 primary cooperative shall be allowed to become officers of CLIMBS at the same time.

2. Should a Representative of a Cooperative elected to the BOD and other elected and appointed officers of CLIMBS is separated from his/her Cooperative for whatever reason, said Cooperative for whatever reason, said Cooperative is entitled to replace such Representative within 60 days from his/her separation. Failure to observe the period herein provided is deemed a waiver of such right and the existing BODs of CLIMBS may appoint a replacement Representative from other cooperatives from the same island represented; and

3. Should a representative of a Cooperative elected to the BOD and other elected officers of CLIMBS has ended his/her term in the Cooperative represented, but the term to be served in CLIMBS is still unexpired, the Cooperative concern may through a BOD Resolution either allow said Representative to continue or designate another to finish the term.

Note: Attached is the Election Guidelines for this 2017 CLIMBS Elections.

III. Activities Undertaken

The Election Committee has undertaken at least 5 meetings prior this 2017 Annual General Assembly. Two (2) of these meeting were undertaken jointly with the Board of Directors and other Committees. As a result, this Committee was able to enhance further our Election Guidelines to ensure the selection, election and appointment of qualified officers to help run the business of CLIMBS.

We are therefore recommending the following amendments to our Election Guidelines:

1. Together with the completely filled-up Certificate of Candidacy, candidates must submit a photocopy/ies of their training certificates on Coop Good Governance or Basic Insurance Course;

2. A photocopy of the latest Certificate of Compliance (issued by CDA) of the primary cooperative being represented by the candidate must be submitted.

3. In the 2018 Elections, Certificates of Candidacies must be submitted 7 days prior GA proper for proper evaluation and assessment. A functional orientation will also be undertaken for the candidates to refresh them of the Vision, Mission and Goals of CLIMBS and the roles and responsibilities of the position they have applied for.

4. Candidates belonging to the Top 5 Shareholders and those for Independent Directors shall still file their intent to become BODs of CLIMBS by completely filling-up Certificates of Candidacies to be submitted to the Election Committee.

IV. Vacancies for the CLIMBS AGA 2017:

1. Board of Directors

1.1 Top 5 Shareholders	= 1 seat
1.2 Luzon	= 1 seat
1.3 Visayas	= 0
1.4 Mindanao	= 1 seat
1.5 Independent	= 0

Note: Luzon has an additional seat this year (2017) due to an increase in share capital.

2. Audit Committee	= 2 seats
3. Election Committee	= 2 seats

We enjoin qualified cooperative leaders to join the officership of CLIMBS. And let's help CLIMBS achieve its vision by being the 1st choice for our insurance and other financial needs/investments.

Mr. Alexander B. Raquepo
Chairperson

Ms. Nena C. Espinola
Secretary

Dr. Gloria P. Dagatan, RGC
Member

Gender and Development (GAD) Committee Report

Dear Cooperators,

The Committee conducted the first GAD training which was participated by CLIMBS Staff led by its President and CEO Mr. Fermin L. Gonzales and the members of the Executive Management Team on September 30, 2016 in Cagayan de Oro City.

The main objective of the conduct of the said training was to raise awareness to all of CLIMBS staff about Gender Sensitivity issues and Family Enrichment and learn how this can be used as a tool to improve their interpersonal relationships especially in the workplace. Furthermore, discussions on heightened personal hygiene awareness and women's laws particularly on sexual harassment was emphasized.

GAD training resource speakers were composed of the Committee Members themselves with Ms. Salome Ganibe as consultant. The training employed a variety of methodology and approaches such as PowerPoint presentations, role-plays, workshops and icebreakers as effective tools that enhanced the participants understanding of the topics discussed.

Gender Concepts focused on differentiated social roles, behaviors, capacities, intellectual, emotional and social characteristics attributed by a given culture or community for men and women including the third sex heightened the discussion.

Processing was conducted in every session which made the participants realize and understood the different gender roles in the society specifically the socialization issues brought about by stereotyping and culture.

The activity likewise enabled the participants to disclose their deepest feelings and actions of every thought and how each should look at their daily lives as well as how fairness should always be taken into consideration. It is also important to note that people should not pass judgment on people based on appearance or gender. Furthermore, each one should be given equal opportunities for growth and total development.

One day was not enough for the said training where participants requested additional days be added for such training. The totality of the seminar proved to be successful especially during the evaluation process wherein all participants expressed satisfaction and appreciation for having been involved.

Many said that it was an eye-opener for them that made them promise to themselves to be more understanding and accepting of the different gender types.

The committee plans to institutionalize Gender and Development training seminars through the CLIMBS Institute as follows; February 12, 2017 Luzon Area, March 3, 2017 Visayas Area and May 19, 2017 Davao Area.

The GAD Committee members, CLIMBS President & CEO and participants of the Gender & Development Training on September 30, 2016 in Cagayan De Oro City

Very truly yours,

Ms. Norma R. Peyreras
Chairperson

Ms. Marlene D. Sindayen
Vice Chairperson

Dr. Irma E. Cruz
Secretary

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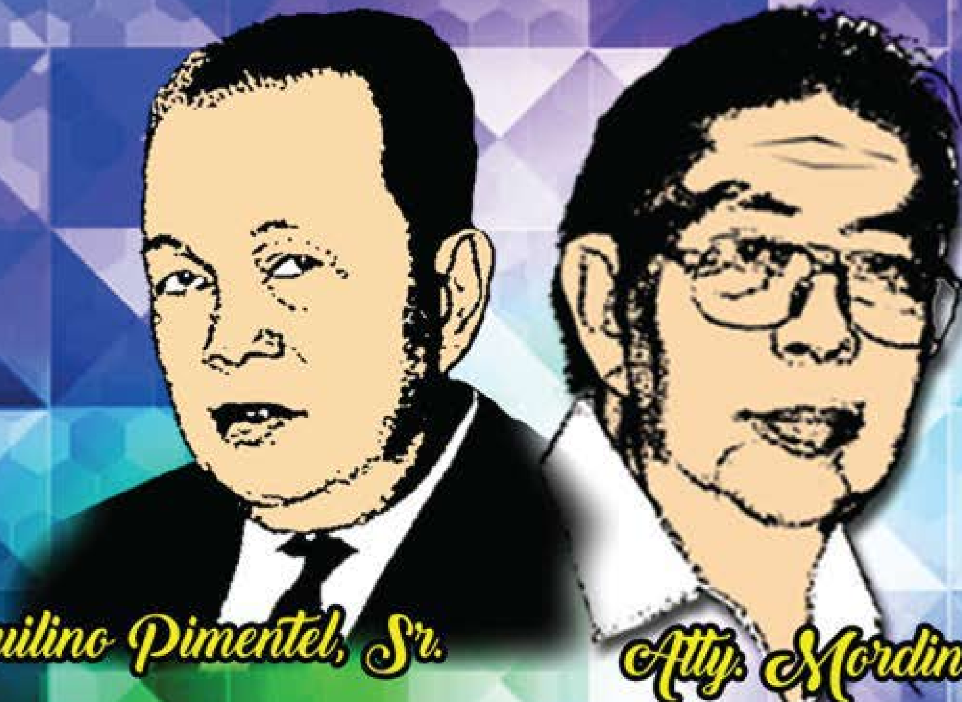
CLIMBS Life and General Insurance Cooperative

"The Grassroots Insurance"

Founders



Atty. Aquilino Pimentel, Sr.

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