MANUAL
ON EXAMINATION
OF
LIFE INSURANCE
COMPANIES

2017 Edition
TABLE OF CONTENTS

I. FOREWORD

II. CHART OF ACCOUNTS

III. EXAMINATION CYCLE

A. Administrative Guidelines

A.1 Field examination
   A.1.1 Preparation
   A.1.2 Concluding the examination

A.2 Annual Statement Verification
   A.2.1 Filing
   A.2.2 Acceptance
   A.2.3 Assignment
   A.2.4 Verification, Analysis and Evaluation
   A.2.5 Transmittal of Results of the Verification
   A.2.6 Approval of the Annual Statement
   A.2.7 Publication of the Synopsis of the Annual Statement

B. Audit Guidelines

B.1 Physical Inventory

B.2 Assets

   B.2.1 Investment in Stocks
   B.2.2 Investment in Government Securities (Bonds/Treasury Bills)
   B.2.3 Other Investments
   B.2.4 Property and Equipment
   B.2.5 Property and Equipment – Land and Building
   B.2.6 Mortgage and Collateral Loans
   B.2.7 Security Fund
   B.2.8 Guaranteed Loans
   B.2.9 Other Loans
   B.2.10 Due from Ceding Companies
   B.2.11 Receivable from Life Insurance Pools
B.2.12 Reinsurance Recoverable on Paid Losses
B.2.13 Reinsurance Recoverable on Unpaid Losses
B.2.14 Policy Loans
B.2.15 Net Premiums Due and Uncollected
B.2.16 Net Deferred Premiums

B.3 Liabilities

B.3.1 Premiums due to Reinsurers
B.3.2 Taxes Payable
B.3.3 Accrued Expense and Other Liabilities
B.3.4 Aggregate Reserve for Life Policies and Contracts
B.3.5 Policy Contracts and Claims
B.3.6 Policy Dividends Liabilities

B.4 Networth
CHAPTER I

FOREWORD

The Insurance Commission is the regulatory body that regulates insurance companies. The function of the Life/MBA’s/Trust Division is to conduct examination/verification of life insurance companies’ financial condition, affairs and methods of doing business.

Section 253 of the Amended Insurance Code explicitly states that, “The Commissioner shall at least once a year and whenever he considers the public interest so demands, cause an examination to be made into the affairs, financial condition and method of business of every insurance company authorized to transact business in the Philippines and of any other person, firm or corporation managing the affairs and/or property of such insurance company.”

The objective of the examination is to monitor the companies’ compliance with regulatory requirements, to detect, as early as possible, any financial difficulties and company practice and/or engagement of improper or unlawful activities to ensure financial stability of all life insurance companies for the protection of all stakeholders.

This manual is intended as a guide for examiners in conducting examination of the financial condition of life insurance companies in accordance with the Insurance Commission financial reporting framework, valuation of insurance policy reserves, risk-based capital framework and enhanced microinsurance regulatory framework if applicable.

It is not claimed that this manual is entirely without flaws, hence its periodic review is earnestly recommended to keep pace with the rapidly changing business environment. Neither is it claimed to be complete and absolute, as the Insurance Commission may require additional documents and perform additional procedures, as necessary, depending on the circumstances at the time of examination.
CHAPTER II

CHART OF ACCOUNTS

STATEMENT OF FINANCIAL POSITION ACCOUNTS

ASSET ACCOUNTS

1. CASH ON HAND

Cash in the possession of the company or in transit under its control are generally classified as cash on hand. This represents the total amount of undeposited collections and the different types of working funds in the custody of the cashier and/or fund custodian at the company’s head office and branches. This may consist of:

1.1. Undeposited Collections - This represents Philippine currency notes and coins, checks, bank drafts, and other cash items in favor of the company to be deposited in the bank on the following banking day. This does not include postdated checks and returned checks which have been dishonored by the bank due to insufficient funds.

1.2. Petty Cash Fund - This represents fund that is established to defray immediate minimal disbursements which are evidenced by duly accomplished and approved petty cash vouchers with the corresponding supporting receipts and other cash documents. This fund shall be maintained under an imprest system.

1.3. Commission Fund - This represents fund that is established for the purpose of paying commission to agents where the amounts are less than the minimum amount prescribed for check payments. This fund shall be maintained under an imprest system.

1.4. Policy Loan Fund - This represents fund that is established for the sole purpose of paying policyholder’s cash loans and where the amounts are less than the minimum amount prescribed for check payments. This fund shall be maintained under an imprest system.

1.5. Documentary Stamps Fund - This represents fund that is set up for documentary stamps for affixture to policy loan agreements, promissory notes, certificates of authority and other legal documents. This fund shall be maintained under an imprest system.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.
2. CASH IN BANKS

This represents non-interest and interest bearing account balances maintained in various banks by the company’s head office and branches.

2.1. Cash in Banks - Current - This represents checking account balances in banks maintained by the company’s head office and branches.

2.2. Cash in Banks - Savings - This represents savings deposit account balances in banks maintained by the company’s head office and branches.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

3. TIME DEPOSITS

This represents interest yielding bank account balances evidenced by a Time Deposit Certificate and available upon maturity.

These time deposits shall be measured initially at amortized cost, which is generally equivalent to its face amount.

4. PREMIUMS DUE AND UNCOLLECTED

This represents premiums due within the grace period but have not been paid as of the end of the accounting period on all life policies which are classified as in-force in the company’s valuation records. The amount for this account shall be the gross premiums net of loadings such as commissions and premium taxes.

This account shall be measured at amortized cost less any impairment loss.

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective
interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

5. DUE FROM CEDING COMPANIES

This shall comprise of the following sub-accounts:

5.1. *Due from Ceding Companies – Treaty* – This represents balances due to the company as a result of treaty acceptances from ceding companies.

5.2. *Due from Ceding Companies – Facultative* – This represents balances due to the company as a result of facultative acceptances from ceding companies.

This account shall be measured at amortized cost less any allowance for impairment losses.

6. FUNDS HELD BY CEDING COMPANIES

This represents amounts pertaining to a certain percentage of the total reinsurance premiums due within one year from date of retention being held by ceding companies.

This account shall be measured at amortized cost less any allowance for impairment losses.

7. AMOUNTS RECOVERABLE FROM REINSURERS

This shall comprise of the following sub-accounts:

7.1. *Reinsurance Recoverable on Paid Losses – Treaty* – This represents the amount recoverable from reinsurers under treaty agreements as their share in paid losses and loss adjustment expenses net of salvage of recoveries.
7.2. **Reinsurance Recoverable on Paid Losses – Facultative** – This represents the amount recoverable from reinsurers under facultative reinsurance agreements as their share in paid losses and loss adjustments expenses net of salvage or recoveries.

7.3. **Reinsurance Recoverable on Unpaid Losses – Treaty** – This represents the amount recoverable from reinsurers under treaty agreements as their share on unpaid losses and loss adjustment expense net of salvage or recoveries.

7.4. **Reinsurance Recoverable on Unpaid Losses – Facultative** – This represents the amount recoverable from reinsurers under facultative reinsurance claims as their share on unpaid losses and loss adjustment expense net of salvage or recoveries.

7.5. **Allowance for Impairment Losses** - This represents the amount set up to provide for losses which may arise from non-collection of the amounts recoverable from reinsurers.

This account shall be measured at amortized cost less any allowance for impairment losses.

8. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

A financial asset at fair value through profit or loss (FVPL) is a financial asset or financial liability that meets either of the following conditions:

(A) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if:

   (A.1) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

   (A.2) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

   (A.3) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

(B) Upon initial recognition it is designated by the entity as at FVPL. An entity may use this designation only when permitted, or when doing so results in more relevant information, because either:
(B.1) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or

(B.2) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel, for example the entity's board of directors and chief executive officer.

(B.3) Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, shall not be designated as at FVPL.

The following changes in circumstances are not reclassifications:

(A) A derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

(B) A derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;

(C) Financial assets are reclassified when an insurance company changes its accounting policies. This reclassification is permitted if an insurer changes accounting policies when it first applies this Financial Reporting Framework and if it makes a subsequent policy change.

Reclassifications of financial assets after initial recognition shall be in accordance with the following:

(A) An entity shall not reclassify any financial instrument into the FVPL category after initial recognition

(B) An entity:

(B.1) Shall not reclassify a derivative out of the FVPL category while it is held or issued;
(B.2) Shall not reclassify any financial instrument out of the FVPL category if upon initial recognition it was designated by the entity as at FVPL; and

(B.3) May, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the FVPL category if the any of the following requirements are met:

(B.3.1) A financial asset to which (c) applies (except a financial asset of the type described in iii) may be reclassified out of FVPL category only in rare circumstances.

(B.3.2) If an entity reclassifies a financial asset out of FVPL in accordance with paragraph i, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(B.3.3) A financial asset to which (c) applies that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be classified out of the FVPL category if the entity has the intention and ability to hold the financial asset for the foreseeable future until maturity.

(B.3.4) If an entity reclassifies a financial asset out of the FVPL category in accordance with paragraph iii, it shall reclassify the financial asset at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

8.1. **Securities Held for Trading** - This represents debt and equity securities that are:

a) Acquired principally for the purpose of selling or repurchasing it in the near term; or
b) Part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

This shall comprise of the following sub-accounts based on the types of securities held:

8.1.1. **Trading Debt Securities - Government** - This represents debt instruments issued by the government and its instrumentalities (government agencies, local governments, government owned and controlled corporations). This includes treasury bills, treasury notes and ROP bonds.

8.1.2. **Trading Debt Securities - Private** - This represents debt instruments issued by private corporations, whether domestic or foreign, such as commercial papers, notes and bonds.

8.1.3. **Trading Equity Securities** - This represents common and preferred shares of stock of companies other than those of subsidiaries, associates and joint ventures.

8.1.4. **Mutual, Unit Investment Trust, Real Estate Investment Trusts and Other Funds** - This represents units held in mutual funds and such other similar types which are generally redeemable any time and where the values are determined based on the daily net asset value per share or unit.

8.2. **Financial Assets Designated at Fair Value through Profit or Loss** - This represents financial assets which the company, upon initial recognition, has designated at FVPL. This shall comprise of the following sub-accounts based on the types of securities held:

8.2.1. Debt Securities - Government
8.2.2. Debt Securities - Private
8.2.3. Equity Securities
8.2.4. Mutual Funds and Unit Investment Trusts
8.2.5. Real Estate Investment Trusts
8.2.6. Others

8.3. **Derivative Assets** - This represents the positive fair value of the company's derivatives which are not designated and considered effective hedging instruments.
**Derivative** is a financial instrument or other contract with all three (3) of the following characteristics:

(A) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(B) It is settled at a future date.

This shall comprise of the following sub-accounts based on the types of derivative contracts:

(A) Foreign exchange contracts - This represents contracts to purchase/sell foreign currencies at a future date at a fixed rate.

(B) Interest rate contracts - This represents contracts related to an interest bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract.

(C) Equity contracts - This represents contracts where the returns are linked to the price of a particular equity or equity index.

These financial assets shall be measured at fair value wherein changes in fair value are recognized in profit or loss.

**Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

An insurance company's bonds or other instruments of indebtedness shall be subject to the requirements of Section 206 (b) (2) to (4) of the Amended Insurance Code.

Preferred or guaranteed stocks and common stocks of any solvent corporation or institution created or existing under the laws of the Philippines and securities
issued by a registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended, may be purchased, held or owned by an insurance company provided that it has complied with the requirements of Section 206 (b) (5) to (7) of the Amended Insurance Code.

Subject to the provisions of Section 206 (c) of the Amended Insurance Code, any domestic insurer which has outstanding insurance, annuity or reinsurance contracts in currencies other than the national currency of the Philippines may invest in, or otherwise acquire or loan upon securities and investments in such currency which are substantially of the same kinds, classes and investment grades as those eligible for investment under the foregoing subdivisions of this section; but the aggregate amount of such investments and of such cash in such currency which is at any time held by such insurer shall not exceed one and one-half (1½) times the amount of its reserves and other obligations under such contracts or the amount which such insurer is required by the law of any country or possession outside the Republic of the Philippines to be invested in such country or possession, whichever shall be greater.

Subject to the provisions of Section 209 of the Amended Insurance Code, every domestic insurance company shall, to the extent of an amount equal to twenty-five percent (25%) of the minimum net worth required under Section 194 of the Amended Insurance Code, invest its funds only in securities, satisfactory to the Commissioner, consisting of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or -controlled corporations and entities, including the Bangko Sentral ng Pilipinas (BSP): Provided, That such investments shall at all times be maintained free from any lien or encumbrance: Provided, further, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of all its obligations under its insurance contracts. The provisions of Section 198 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

9. HELD-TO-MATURITY INVESTMENTS

This represents quoted debt securities with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold to maturity other than:

(A) Those that the company upon initial recognition designates as at FVPL;
(B) Those that the company designates as available for sale (AFS); and
(C) Those that meet the definition of loans and receivables.
An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity (HTM) investments before maturity (more than insignificant in relation to the total amount of HTM investments) other than sales or reclassifications that:

(A) Are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(B) Occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(C) Are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

An entity may reclassify its HTM investments to AFS financial assets if, as a result of change in intention or ability, it is no longer appropriate to classify the financial asset as such. The financial asset is then remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in reserve for AFS securities, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized.

This account shall be measured at amortized cost using the effective interest method of amortization subject to any impairment loss.

Investments intended to be held for an undefined period shall not be included in this classification.

9.1. HTM Debt Securities – Government

9.1.1. Unamortized Discount/Premium - This represents the unamortized discount / premium on HTM government debt securities which shall be debited/credited monthly to this account. Amortization of premium/discount is based on the effective interest rate method.

9.2. HTM Debt Securities – Private

9.2.1 Unamortized Discount/Premium

9.3. Allowance for Impairment Losses - This represents the amount of impairment loss incurred on the HTM securities.
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

An insurance company's bonds or other instruments of indebtedness shall be subject to the requirements of Section 206 (b) (2) to (4) of the Amended Insurance Code.

Subject to the provisions of Section 206 (c) of the Amended Insurance Code, any domestic insurer which has outstanding insurance, annuity or reinsurance contracts in currencies other than the national currency of the Philippines may invest in, or otherwise acquire or loan upon securities and investments in such currency which are substantially of the same kinds, classes and investment grades as those eligible for investment under the foregoing subdivisions of this section; but the aggregate amount of such investments and of such cash in such currency which is at any time held by such insurer shall not exceed one and one-half (1½) times the amount of its reserves and other obligations under such contracts or the amount which such insurer is required by the law of any country or possession outside the Republic of the Philippines to be invested in such country or possession, whichever shall be greater.

Subject to the provisions of Section 209 of the Amended Insurance Code, every domestic insurance company shall, to the extent of an amount equal in value to twenty-five percent (25%) of the minimum net worth required under Section 194 of the Amended Insurance Code, invest its funds only in securities, satisfactory to the Commissioner, consisting of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, of government-owned or -controlled corporations and entities, including the BSP: Provided, That such investments shall at all times be maintained free from any lien or encumbrance: Provided, further, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of all its obligations under its insurance contracts. The provisions of Section 198 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.
10. **LOANS AND RECEIVABLES**

This represents non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

(A) Those that the company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the company upon initial recognition designates as at FVPL;

(B) Those that the company upon initial recognition designates as AFS, or

(C) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

Loans and receivables which are quoted shall be classified as debt securities.

Loans and Receivables shall be comprised of the following sub-accounts:

10.1. **Real Estate Mortgage Loans** - This represents the outstanding balances of loans secured by first mortgage on real estate properties.

10.2. **Collateral Loans** - This represents the outstanding balances of loans granted to companies or individuals secured by pledges of shares of stock, bonds and/or other securities.

10.3. **Guaranteed Loans** - This represents the outstanding balances of loans granted to companies or individuals which are covered by guarantees from other entities or individuals.

10.4. **Chattel Mortgage Loans** - This represents the outstanding balances of loans secured by mortgage of chattels or personal properties (i.e. car plan).

10.5. **Policy Loans** - This represents the outstanding balances of loans granted to policyholders at prescribed interest rates, fully secured by the cash surrender value of the underlying insurance policy. These may be in the form of a cash loan applied for the policyholder or Automatic Premium Loan applied by the life insurance company to cover premium(s) due on the policy still unpaid after the grace period.
10.6. *Unearned Interest Income* - This represents advanced interest on loans which have not been earned by the life insurance company as of the end of the accounting period.

10.7. *Notes Receivable* - This represents interest bearing loans granted by the company and evidenced by duly approved and notarized Promissory Notes.

10.8. *Housing Loans* - This represents outstanding balances of loans granted to employees secured by a mortgage covering their house and lot.

10.9. *Car Loans* - This represents outstanding balances of loans granted to employees secured by a mortgage covering their cars.

10.10. *Low Cost Housing* - This represents the outstanding balances of loans granted to employees and other selected non-group employees for low cost housing projects as approved and participated upon by government agencies.

10.11. *Purchase Money Mortgages* - This represents the note secured by a mortgage or deed of trust given by a buyer, as borrower, to a seller, as lender as part of the purchase price of the disposed real property held or otherwise held.

10.12. *Sales Contract Receivables* - This represents the uncollected portion of the consideration on the sale of real estate owned by the company, whereby title to the property sold has been transferred to the buyer, and subject of a deed of sale with mortgage

10.13. *Unquoted Debt Securities* - This represents unquoted debt securities with fixed or determinable payments and fixed maturity.

10.14. Salary loans - This represents loans secured by salaries of the borrower and, as approved by the Commission.

10.15. *Others Loans Receivable* - This represents all other loans which cannot be classified under any of the foregoing loan accounts.

10.16. *Allowance for Impairment Losses* - This represents the amount set up to provide for losses which may arise from non-collection of receivables.
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

Except for purchase money mortgages, this account shall be measured at amortized cost using the effective interest method of amortization subject to any impairment loss.

For purchase money mortgage received on dispositions of real property held, this shall be valued in an amount equivalent to ninety percent (90%) of the value of such real property. For purchase money mortgage received on dispositions of real property otherwise held, shall be valued in an amount not exceeding ninety percent (90%) of the value of such real property as determined by an appraisal made by an appraiser at or about the time of disposition of such real property.

In addition to the above requirements, an insurance company shall not loan any of its money or deposits to any person, corporation or association unless it has obtained the required security as provided for in Sections 204 and 205 of the Amended Insurance Code.

In addition, pursuant to provisions of Section 206 (b) (8) to (11) an insurance company may purchase, hold or own the following:

(A) Certificates, notes and other obligations issued by the trustees or receivers of any institution created or existing under the laws of the Philippines which, or the assets of which, are being administered under the direction of any court having jurisdiction: Provided, however, That such certificates, notes or other obligations are adequately secured as to principal and interests

(B) Equipment trust obligations or certificates which are adequately secured or other adequately secured instruments evidencing an interest in equipment wholly or in part within the Philippines: Provided, however, that there is a right to receive determined portions of rental, purchase or other fixed obligatory payments for the use or purchase of such equipment.

(C) Any obligation of any corporation or institution created or existing under the laws of the Philippines which is, on the date of acquisition by the insurer, adequately secured and has qualities and characteristics wherein the speculative elements are not predominant.
(D) Such other securities as may be approved by the Commissioner.

Subject to the provisions of Section 206 (c) of the Amended Insurance Code, any domestic insurer which has outstanding insurance, annuity or reinsurance contracts in currencies other than the national currency of the Philippines may invest in, or otherwise acquire or loan upon securities and investments in such currency which are substantially of the same kinds, classes and investment grades as those eligible for investment under the foregoing subdivisions of this section; but the aggregate amount of such investments and of such cash in such currency which is at any time held by such insurer shall not exceed one and one-half (1½) times the amount of its reserves and other obligations under such contracts or the amount which such insurer is required by the law of any country or possession outside the Republic of the Philippines to be invested in such country or possession, whichever shall be greater.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

These represent non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity or financial assets at FVPL.

This account shall be measured at fair value, wherein fair value changes are recognized in Reserve for AFS Securities, subject to any impairment loss

11.1. AFS Debt Securities – Government

11.1.1. Unamortized Discount/Premium - This represents the unamortized discount / premium on AFS government debt securities which shall be debited/credited monthly to this account. Amortization of premium/discount is based on the effective interest rate method.

11.2. AFS Debt Securities – Private

11.2.1. Unamortized Discount/Premium

11.3. AFS Equity Securities

11.4. Allowance for Impairment Losses - This represents the amount of impairment loss incurred on the AFS securities.

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset
previously recognized in the statement of reserve for AFS securities is removed from reserve for AFS securities and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in reserve for AFS securities.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of " Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

11.5. Mutual Funds Unit Investment Trusts

11.6. Real Estate Investment Trusts

11.7. Others Funds

An entity may reclassify its AFS financial assets to HTM investments if, as a result of change in intention or ability, it is no longer appropriate to classify the financial asset as such. The market value of the AFS financial assets at the time of reclassification shall be the cost of the HTM investments. The amount recognized in reserve for AFS securities shall be amortized using the effective interest rate method.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables (if it had not been designated as available-for-sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the future until maturity.

An entity reclassifies a financial asset out of the available-for-sale category in accordance with the preceding paragraph shall reclassify the financial asset at its fair value on the date of reclassification. Any previous gain or loss on that asset that has been recognized in reserve for AFS securities shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.
An insurance company's bonds or other instruments of indebtedness shall be subject to the requirements of Section 206 (b) (2) to (4) of the Amended Insurance Code.

Preferred or guaranteed stocks and common stocks of any solvent corporation or institution created or existing under the laws of the Philippines and securities issued by a registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended, may be purchased, held or owned by an insurance company provided that it has complied with the requirements of Section 206 (b) (5) to (7) of the Amended Insurance Code.

Section 206 (c) of the Amended Insurance Code also provides that any domestic insurer which has outstanding insurance, annuity or reinsurance contracts in currencies other than the national currency of the Philippines may invest in, or otherwise acquire or loan upon securities and investments in such currency which are substantially of the same kinds, classes and investment grades as those eligible for investment under the foregoing subdivisions of this section; but the aggregate amount of such investments and of such cash in such currency which is at any time held by such insurer shall not exceed one and one-half (11/2) times the amount of its reserves and other obligations under such contracts or the amount which such insurer is required by the law of any country or possession outside the Republic of the Philippines to be invested in such country or possession, whichever shall be greater.

Subject to the provisions of Section 209 of the Amended Insurance Code, every domestic insurance company shall, to the extent of an amount equal in value to twenty-five percent (25%) of the minimum net worth required under Section 194 of the Amended Insurance Code, invest its funds only in securities satisfactory to the Commissioner, consisting of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or -controlled corporations and entities, including the BSP: Provided, That such investments shall at all times be maintained free from any lien or encumbrance: Provided, further, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of all its obligations under its insurance contracts. The provisions of Section 198 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

12. INVESTMENTS INCOME DUE AND ACCRUED

This represents income earned but not yet received as of the end of the accounting period. This account consists of the following sub-accounts:

12.1. Accrued Interest Income - Cash in Banks
12.2. Accrued Interest Income - Time Deposits

12.3. Accrued Interest Income - Financial Assets at FVPL
   12.3.1. Securities Held for Trading
      12.3.1.1. Debt Securities - Government
      12.3.1.2. Debt Securities - Private
   12.3.2. Financial Assets Designated at FVPL
      12.3.2.1. Debt Securities - Government
      12.3.2.2. Debt Securities - Private

12.4. Accrued Interest Income - AFS Financial Assets
   12.4.1. AFS Debt Securities - Government
   12.4.2. AFS Debt Securities - Private

12.5. Accrued Interest Income - HTM Investments
   12.5.1. HTM Debt Securities - Government
   12.5.2. HTM Debt Securities - Private

12.6. Accrued Interest Income - Loans and Receivables
   12.6.1. Real Estate Mortgage Loans
   12.6.2. Collateral Loans
   12.6.3. Guaranteed Loans
   12.6.4. Chattel Mortgage Loans
   12.6.5. Policy Loans
   12.6.6. Notes Receivable
   12.6.7. Housing Loans
   12.6.8. Car Loans
   12.6.9. Low Cost Housing Loans
   12.6.10. Sales Contract Receivable
   12.6.11. Unquoted Debt Securities
   12.6.12. Salary Loans
   12.6.13. Others
      12.6.14.1. FVPL Equity Securities
      12.6.14.2. Designated at FVPL (DVPL) Equity Securities
      12.6.14.3. AFS Equity Securities

These are recognized when earned except for accrued dividends receivable
where the asset is recognized when the stockholder’s right to receive payment
has been established.

13. ACCOUNTS RECEIVABLE

This represents receivable from non-insurance transactions of the company. It
may comprise of the following accounts:
13.1. *Advances to Agents (Agents Accounts)* - This represents advances to insurance agents granted by the company to be liquidated thru regular deductions from commissions and salaries, respectively.

13.2. *Operating Lease Receivables* - This represents the amount of rent receivables arising from operating lease contracts. Lease income should be recognized on a straight-line basis.

13.3. *Allowance for Impairment Losses* - This represents the total amount set up to provide for losses that may arise from non-collection of accounts receivable.

This account shall be measured at amortized cost using the effective interest method of amortization subject to any impairment loss.

14. **INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

This shall comprise of the following accounts:

14.1. *Investment in Subsidiaries* - This represents the amount of the company’s investments in the shares of stock of its subsidiaries. A subsidiary is an entity that is controlled by another entity (known as the parent). A company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

14.2. *Investment in Associates* - This represents the cost of the company’s investments in the shares of stock of its associates. An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

14.3. *Investments in Joint Ventures* - This represents the cost of the company’s investments in joint ventures. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
These investments maybe accounted for as follows:

(A) Cost;
(B) Fair value, if quoted; or
(C) Equity Method.

Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company's share of net assets of the investee since the acquisition date. Goodwill relating to the investment is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The insurance or reinsurer's share of the results of operations of the investee is reflected in profit or loss. Any change in reserve for investment in associates of those investees is presented as part of the company's reserve for investment in associates. In addition, when there has been a change recognized directly in the equity of the investees, the company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the company and the investees are eliminated to the extent of the interest in its investees.

After application of the equity method, the company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in profit or loss.

15. SEGREGATED FUND ASSETS

These represent the amount of investment fund owned by unit-linked policyholders in addition to an insurance coverage. These constitute unit-linked premium collections that are placed to segregated funds which are generally managed by a trustee bank.

Segregated fund assets may be designated as financial assets at FVPL since they are managed and their performance are evaluated at fair value basis, in accordance with a documented risk management or investment strategy.

Changes in the segregated fund assets due to investment earnings or market value fluctuations have no effect on the company's statement of comprehensive income.
The fair value of the fund of each unit-linked policyholder is monitored through the designation of outstanding units for each policy. Hence, the fair value of the fund of each unit-linked policy is equal to its total number of outstanding units multiplied by the net assets value per unit (NAVPU).

The NAVPU is the market value of the fund divided by its total number of outstanding units.

16. PROPERTY AND EQUIPMENT

This account represents tangible items that:

(A) Are held for use in the company's business operations or for administrative purposes; and

(B) Are expected to be used for more than one period.

This account shall have sub-accounts as follows based on the nature of the fixed assets:

16.1 *Land - At cost* - This represents the acquisition cost of the land. Acquisition cost shall consist of the purchase price and all expenditures incurred directly attributable to acquisition.

16.2. *Building And Building Improvements - At cost* - This represents acquisition / construction cost of the building and improvements, including costs incurred subsequent to initial recognition which meet the recognition criteria.

16.2.1. *Accumulated Depreciation - Building and Building Improvements* - This represents the aggregate of the depreciation on the building and building improvements charged by the company against current operations.

16.3. *Leasehold Improvements - At cost* - This represents the cost of additions, improvements and for alterations on the company's leased office premises which are incurred in making the property ready for use and occupancy. This should include the initial estimate of the costs of dismantling and removing the improvements and restoring the site, the obligation for which the company incurs when the property is leased.

16.3.1. *Accumulated Depreciation - Leasehold Improvements*

16.4. *IT Equipment - At cost* - This represents the cost of the information processing systems of the company including the computer hardware, customized software, and peripherals.
16.4.1. Accumulated Depreciation – IT Equipment

16.5. Transportation Equipment – At cost - This represents the cost of motor vehicle and other transportation equipment owned, operated, used, or to be used by the company in carrying out its business and/or insurance operations and as service vehicle of its officers and employees.

16.5.1. Accumulated Depreciation - Transportation Equipment

16.6. Office Furniture, Fixtures and Equipment – At cost - This represents the costs of office machines, equipment, furniture and fixtures.

16.6.1. Accumulated Depreciation - Office Furniture, Fixtures and Equipment

16.7. Property and Equipment under Finance Lease - This represents the cost property and equipment leased by the company under a lease agreement which qualifies as a finance lease.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

16.7.1. Accumulated Depreciation – P&E under Finance Lease

16.7 and 16.7.1 shall comprise of the following sub-accounts:

(A) Land;
(B) Buildings and Building Improvements;
(C) Leasehold Improvements;
(D) EDP Machines;
(E) Transportation Equipment; and
(F) Office Furniture, Fixtures and Equipment.

16.8. Revaluation Increment - This represents the revaluation increase in the carrying amount of the company's property and equipment under the revaluation model.

16.8.1. Accumulated Depreciation – Revaluation Increment

16.8 and 16.8.1 shall comprise of the following accounts:

(A) Land; and
(B) Buildings and Building Improvements.
(C) Others
16.9. *Accumulated Impairment Losses* - This represents the cumulative amount of impairment loss incurred on property and equipment.

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

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

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Subsequent to initial recognition, an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

**Cost model** is a model wherein after initial recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
Revaluation model is a model wherein after, recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in reserve for appraisal increment - property and equipment and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in reserve for appraisal increment - property and equipment to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in reserve for appraisal increment - property and equipment reduces the amount accumulated in equity under the heading of revaluation surplus.

Pursuant to Section 206 (a) of the Amended Insurance Code, a real or personal property as may have been purchased by it at sales under pledges, mortgages or deeds of trust for its benefit on account of money loaned by it; and such real and personal property as may have been conveyed to it by borrowers in satisfaction and discharge of loans made by the company in payment or by reason of any loan made by the company in payment or by reason of any loan made by it shall be sold by the company within twenty (20) years after the title thereto has been vested in it.

Pursuant to Section 206 (b) (1) an insurance company shall may purchase, hold and own real properties which serve as its main place of business and/or branch offices: Provided, That such investment shall not in the overall exceed twenty percent (20%) of its net worth as shown by its latest financial statement approved by the Commissioner.

Pursuant to the provisions of Section 210 (a) of the Amended Insurance Code, any domestic non-life insurance company, shall invest its funds in, or otherwise, acquire or loan upon, only the classes of investments described in Section 206 of the Amended Insurance Code, including securities, issued by any registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as 'The Omnibus Investments Code of 1987' and such other classes of investments as may be authorized by the Commissioner for purposes of this section: Provided, That, no more than twenty percent (20%) of the net worth of such company as shown by its latest financial statement approved by the Commissioner shall be invested in the lot and building in which the insurance company conducts its business.
17. **INVESTMENT PROPERTY**

This represents property (land or building, or part of a building, or both) held (by
the owner or by the lessee under a finance lease) to earn rentals or for capital
appreciation or both, rather than for:

(A) Use in the company's business operations or for administrative purposes,
(B) Sale in the ordinary course of business.

This account shall be classified as follows:

(A) Land – at cost
(B) Building and Building Improvements – at cost
(C) Accumulated Depreciation – Building and Building Improvements
(D) Accumulated Impairment Loss
(E) Land – at fair value
(F) Building and Building Improvements – at fair value
(G) Foreclosed Properties - This represents real properties acquired by
    company in settlement of loans through foreclosure of mortgage loan
    arrangements.

An investment property shall be measured initially at its cost. Transaction costs
shall be included in the initial measurement.

Subsequent to initial recognition, an entity may choose either the cost model or
the fair value model for all of its investment property.

An entity that chooses the cost model shall measure all of its investment
properties at its cost less any accumulated depreciation and any accumulated
impairment losses.

In the fair value model, a gain or loss arising from a change in the fair value of
investment property shall be recognized in profit or loss for the period in which it
arises.

Subject to the provisions of Section 208 of the Amended Insurance Code, a life
insurance company may:

(A) Acquire or construct housing projects and, in connection with any such
    project, may acquire land or any interest therein by purchase, lease
    or otherwise, or use land acquired pursuant to any other provision of this Code.
    Such company may thereafter own, maintain, manage, collect or receive
    income from, or sell and convey, any land or interest therein so acquired and
    any improvements thereon. The aggregate book value of the investments of
any such company in all such projects shall not exceed at the time of such investments twenty-five percent (25%) of the total admitted assets of such company on the thirty-first day of December next preceding. Provided, That the funds of the company for the payment of pending claims and obligations shall not be used for such investments.

(B) Acquire real property, other than property to be used primarily for providing housing and property for accommodation of its own business, as an investment for the production of income, or may acquire real property to be improved or developed for such investment purpose pursuant to a program therefor, subject to the condition that the cost of each parcel of real property so acquired under the authority of this paragraph (b), including the estimated cost to the company of the improvement or development thereof, when added to the book value of all other real property held by it pursuant paragraph (b) of Section 208, shall not exceed twenty-five percent (25%) of its admitted assets as of the thirty-first day of December next preceding.

18. NON-CURRENT ASSETS HELD FOR SALE

This represents assets available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. This generally pertains to non-current assets such as land, building and equipment, whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This account shall be measured at the lower of its carrying amount and fair value less costs to sell.

19. RECEIVABLE FROM LIFE INSURANCE POOLS

This represents the company’s contribution to the life insurance pools which serve as contingency reserve (i.e.) contributions to Home Development Mutual Fund - Yearly Renewable Term (HDMF-YRT) pool, Pag-ibig MRI pool, CARP, etc.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

20. SUBSCRIPTION RECEIVABLE

This represents amounts receivable from stockholders who signified their intention to subscribe to the capital stock of the company and duly covered by a subscription agreement.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.
21. SECURITY FUND CONTRIBUTION

This refers to contribution of the company to the Security Fund - Life Account as required by the Insurance Commission on all insurance companies authorized to do business in the Philippines.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

22. PENSION ASSET

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

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

An entity shall recognize the components of defined benefit cost as follows:
(A) Service cost in profit or loss;
(B) Net interest on the net defined benefit liability or asset in profit or loss; and
(C) Remeasurements of net defined benefit liability or asset in remeasurement gains (losses) on retirement pension asset (obligation).

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 cost shall be recognized as an expense at the earlier of the dates when the plan amendment or curtailment occurs and when the entity recognizes related restructuring costs or termination benefits. 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 remeasurement gains (losses) on retirement pension asset (obligation) in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.
Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the company, nor can they be paid directly to the company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The company’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

(A) The present value of the defined benefit obligation at the reporting date;
(B) Minus the fair value of the plan assets at the reporting date of the plan.

When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:
(A) The surplus in the defined benefit plan; and
(B) The asset ceiling.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

23. DERIVATIVE ASSETS HELD FOR HEDGING

This represents the positive fair value of derivatives that are designated and considered effective hedging instruments.

23.1 Fair Value Hedge - This represents the positive fair value of derivatives that are designated and considered effective fair value hedging instruments. Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. Any fair value changes are recognized in profit or loss.
23.2 Cash Flow Hedge - This represents the positive fair value of derivatives that are designated and considered effective cash flow hedging instruments. Cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss. Any fair value changes are recognized as equity under Cumulative Foreign Currency Translation.

23.3 Hedges of a Net Investment in Foreign Operation - This represents the positive fair value of derivatives that are designated and considered to effective hedging instruments for hedges of a net investment in foreign operation. Any fair value changes are recognized as equity under Reserve for Hedge of a Net Investment in Foreign Operation.

24. OTHER ASSETS

This represents other assets which cannot be classified in any of the foregoing accounts.

To the extent admissible, this account shall be measured at amortized cost, which is generally equivalent to its face amount.
LIABILITY ACCOUNTS

25. AGGREGATE RESERVES FOR LIFE POLICIES

This represents the actuarial reserves set up by the company pertaining to the life policies in force including accident and health riders as at the end of the accounting period. It refers to the amount of liability which the company establishes for a policy to meet the contractual obligation as it falls due.

25.1. Statutory Aggregate Reserve for Life Policies

This represents the actuarial reserves set up by the company computed based on the requirements of the Insurance Code.

This account shall be computed based on the valuation standards for life insurance policy reserves prescribed by the Insurance Commission.

The cumulative impact of the change in valuation and the measurement and recognition principles subsequent to effectivity date shall be in accordance with the valuation standards for life insurance policy reserves prescribed by the Insurance Commission.

26. AGGREGATE RESERVE FOR ACCIDENT AND HEALTH POLICIES

This represents the liabilities set up by the company pertaining to the accident and health policies in force as of the end of the accounting period.

This account shall be computed based on the valuation standards for life insurance policy reserves prescribed by the Insurance Commission.

The cumulative impact of the change in valuation and the measurement and recognition principles subsequent to effectivity date shall be in accordance with the valuation standards for life insurance policy reserves prescribed by the Insurance Commission.

27. RESERVE FOR SUPPLEMENTARY CONTRACTS WITHOUT LIFE CONTINGENCIES

This represents the liabilities set up by the company pertaining to the supplementary contracts sold without life contingencies which are in force as of the end of the accounting period.

This account shall be computed based on the valuation standards for supplementary contracts without life contingencies prescribed by the Insurance Commission.
The cumulative impact of the change in valuation and the measurement and recognition principles subsequent to effectivity date shall be in accordance with the valuation standards for life insurance policy reserves prescribed by the Insurance Commission.

28. POLICY AND CONTRACT CLAIMS PAYABLE

This represents claims (death, health and disability benefits) occurred, filed or reported to the company but not yet paid as of the end of the accounting period. It includes claims due and unpaid, claims in the course of settlement, resisted claims and those which are incurred but not reported. Classification of each account follows:

28.1. Claims Due and Unpaid

This represents the amount at the end of a particular accounting period which is the sum of the individual amounts that are due and have already been approved for payment but, for one reason or another, have not actually been paid.

This account shall be measured at cost.

28.2. Outstanding Claims Reserve

This represents the amount at the end of a particular accounting period which is the sum of the individual amounts which the company has already received notice of claim but on which, for one reason or another, final action has not been taken either approving the claims for payment in full or rejecting it in part or in full.

This account shall be measured at cost.

28.3. Claims Resisted

This represents the amount at the end of a particular accounting period which is the sum of the individual amounts claimed on which the company has been notified and that its decision to deny liability, either in whole or in part, is being challenged and on which the contest has not yet been resolved provided it has met the following conditions:

a) An entity has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.
If these conditions are not met, this account shall not be recognized.

28.4. Claims Incurred but not yet Reported

This represents the amount at the end of a particular period which is an estimate of the sum of the individual claims that already occurred but on which the notice has not yet been received by the company. This estimate takes into account any policy reserve liability set up by the company and any amount recoverable from reinsurers.

This account shall be measured using generally acceptable actuarial principles and internationally accepted actuarial standards.

29. DUE TO REINSURERS

This shall comprise of the following sub-accounts:

29.1. Premiums Due to Reinsurers – Treaty – This represents reinsurance premiums payable by the company to all its treaty reinsurers.

29.2. Premiums Due to Reinsurers – Facultative – This represents reinsurance premiums payable by the company to all its facultative reinsurers.

This account shall be measured at amortized cost, which is generally equivalent to its account balance for those expected to be settled within one year or less.

30. FUNDS HELD FOR REINSURERS

This shall comprise of the following sub-accounts:

30.1. Premium Reserve Withheld for Reinsurers – Treaty – This represents a portion of the reinsurance premium ceded to reinsurers which was withheld by the company in accordance with treaty agreements and/or laws, rules and regulations.

This account shall be measured at amortized cost, which is generally equivalent to its nominal value.
31. **LIFE INSURANCE DEPOSIT/APPLICANT’S DEPOSIT**

This represents amounts received from a policyholder other than his payment for premium or for any lien on his policy. It also includes amounts received from life insurance applicants equal to one modal premium to cover the initial premium pending issuance of his policy. Payments by the policyholder while the policy is in the process of reinstatement are also classified under this account.

This account shall be measured at amortized cost, which is generally equivalent to its nominal value.

32. **SEGREGATED FUND LIABILITIES**

These represents the segregated funds belonging to the unit-linked policy holders. Segregated fund liabilities are set up equal to the segregated fund assets less redemptions and plus subscriptions outside segregated funds.

Changes in the segregated fund assets due to investment earnings or market value fluctuations result to the same corresponding change in the amount of segregated fund liabilities.

33. **PREMIUM DEPOSIT FUND**

This represents amounts held under deposit agreements which do not represent payment of specific premiums which shall earn interest at such rates as approved by the IC.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

34. **REMITTANCES UNAPPLIED DEPOSIT**

This represents industrial premium collections and other cash collections in which the proper account to be credited cannot be ascertained yet.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

35. **PREMIUMS RECEIVED IN ADVANCE**

This represents premiums from traditional life policies received by the life insurance company in excess of one modal premium which is withdrawable anytime.

This account shall be measured at amortized cost, which is generally equivalent to its account balance.
36. **POLICYHOLDERS’ DIVIDENDS DUE AND UNPAID**

This represents dividends due to the policyholders which have not been paid at the end of the accounting period. This account shall be measured at cost or account balance.

37. **POLICYHOLDERS’ DIVIDENDS ACCUMULATIONS/DIVIDENDS HELD ON DEPOSIT**

This represents dividends which policyholders did not withdraw from the company but have left with the life insurance company to accumulate and earn interest.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

38. **MATURITIES AND SURRENDERS PAYABLES**

This represents claims on matured and surrendered policies due and unpaid at the end of the accounting period pending compliance with some requirements.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

39. **COMMISSIONS PAYABLE**

This represents unpaid commissions on the company’s direct business, payable to ordinary agents, general agents and insurance brokers.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

40. **RETURN PREMIUMS PAYABLE**

This represents the aggregate premiums to be refunded to the insured due to endorsements or cancellation of the policies.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.
41. **TAXES PAYABLE**

This shall be comprised of the following sub-accounts:

41.1. *Premiums Tax Payable* - This represents premium tax due and collected but not remitted.

41.2. *Documentary Stamps Tax Payable* - This represents documentary stamps due as at report date. This represents the unpaid balance of documentary stamps tax liability.

41.3. *Value-added Tax (VAT) Payable* – This represents the tax due on sale of insurance policies and other goods or services based on cash received, net of input VAT paid by the company in the course of the company’s purchases of goods or services.

41.4. *Income Tax Payable* - This represents income taxes due and payable to the government net of creditable taxes.

41.5. *Withholding Tax Payable* - This represents income taxes withheld from the salaries of employees and creditable taxes withheld from source under the expanded withholding tax system from the remunerations of agents, brokers, general agents, medical examiners and other agencies/corporations for services rendered.

41.6. *Fire Service Tax Payable* - This represents the unpaid balance of the Fire Service Tax liability.

41.7. *Other Taxes & Licenses Payable* - This represents all unpaid taxes and licenses other than the taxes enumerated above due to the government.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

42. **ACCOUNTS PAYABLE**

This represents obligations of the company as a result of indebtedness due to any corporations, individuals or suppliers which are non-insurance/reinsurance related. This may include the following accounts:

42.1. *SSS Premiums Payable* - This represents the unremitted SSS premiums/contributions withheld from the salaries of officers/employees.

42.2. *SSS Loans Payable* - This represents the SSS salary loan amortizations deducted from the salaries of officers and employees.
42.3. Pag-ibig Premiums Payable - This represents the unremitted contributions to the Home Development Mutual Fund (HDMF Pag-ibig) deducted from the salaries of officers employees.

42.4. Pag-ibig Loans Payable - This represents the unremitted Pag-ibig loan amortizations deducted from the salaries of officers and employees.

42.5. Operating lease liability - This represents the amounts payable arising from lease contract which is classified as an operating lease. Lease payments shall be recognized as an expense on a straight-line basis over the term of the lease.

42.6. Other Accounts Payable – This represents all other unpaid non-insurance/reinsurance related obligations.

The above accounts shall be measured at amortized cost, which is generally equivalent to face amount.

43. DEPOSIT FOR REAL ESTATE UNDER CONTRACT TO SELL

This represents the installment payments received by the company on real estate sold under contract to sell, titles to which is still in the name of the company.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

44. DIVIDENDS PAYABLE

This represents cash dividends and other dividends, except stock dividends, already declared but still unpaid and due to the stockholders of the company.

This account shall be measured based on the amount of dividends declared.

45. LIABILITY ON LIFE INSURANCE POOL BUSINESS

This represents the company's share in liabilities pertaining to participation in the life insurance pool business.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.
46. **FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

This represents financial liabilities which are carried at fair value through profit and loss.

46.1 Financial Liabilities Held for Trading - This represents financial liabilities that are:

46.1.1 Acquired principally for the purpose of selling or repurchasing it in the near term; or

46.1.2 Part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

46.2. Financial Liabilities designated at FVPL - This represents financial liabilities which the company, upon initial recognition, has designated at FVPL.

46.3. Derivative Liabilities - This represents the negative fair value of the company's derivatives which are not designated and effective hedging instruments. This shall comprise of the following sub-accounts based on the types of derivative contracts:

46.3.1 Foreign exchange contracts - This represents contracts to purchase/sell foreign currencies at a future date at a fixed rate.

46.3.2 Interest rate contracts - This represents contracts related to an interest bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract.

46.3.3 Equity contracts - This represents contracts where the returns are linked to the price of a particular equity or equity index.

47. **NOTES PAYABLE**

This represents long-term and short-term notes payable or any kind of indebtedness duly covered by promissory notes and which are interest-bearing. Payment of interest and principal is based on predetermined amortization schedule on due dates duly agreed upon in the loan agreement.

This shall be carried at amortized cost using the effective interest rate method.
48. **FINANCE LEASE LIABILITY**

This represents the company's future minimum lease payments relating to finance leases.

This shall be carried at amortized cost using the effective interest rate method.

49. **PENSION OBLIGATION**

This represents the company's obligation with respect to the retirement and other postemployment benefits granted to employees. This is calculated as the net total of the following amounts:

A.) The present value of the defined benefit obligation at the reporting date;
B.) Minus the fair value of the plan assets at the reporting date.

50. **ACCRUAL FOR OTHER LONG-TERM EMPLOYEE BENEFITS**

This represents accruals for the company's obligation for other types of long-term benefits provided to its employees other than those arising from post-employment benefits.

This shall be carried at amortized cost using the effective interest rate method.

51. **DEFERRED TAX LIABILITY**

This represents the total amount of deferred tax on taxable temporary differences.

These are measured at the tax rates that are applicable to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

52. **PROVISIONS**

This represents the amount recognized by the company for a liability which is uncertain in amount or timing.

A provision shall be recognized when:

a) The company has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.
53. **CASH-SETTLED SHARE-BASED PAYMENT**

This represents liability arising from cash-settled share based payments

Until the liability is settled, the company shall re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement for the period.

54. **ACCRUED EXPENSES**

This represents expenses incurred for the period and shall be accrued by the company. This shall be further comprised of the following sub-accounts:

54.1. **Accrued Utilities** - This represents accruals for utilities consumed by the company during the reporting period which have not yet been paid. This includes accruals for electricity, water and communications.

54.2. **Accrued Services** - This represents accruals for services rendered to the company such as janitorial, security, professional fees and others.

54.3. **Accrual for Unused Compensated Absences** - This represents the company's liability relating to unused compensated absences, incurred when the employees render service.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

55. **OTHER LIABILITIES**

This represents other liabilities which cannot be appropriately classified under the foregoing liability accounts. This may comprise of the following accounts:

55.1. **Deferred Income** - This represents income received during the accounting period but not yet earned for which recognition as income is deferred.

55.2. **Agency retirement plan** - This refers to the outstanding liability of the company under the retirement plan it administers for the members of its agency force.

55.3. **Agency Group Hospitalization Plan** - This represents the outstanding liability of the company pertaining to the group hospitalization coverage of member of the agency force and their dependents.
55.4. Agency Group Term Plan - This represents the outstanding liability of the company pertaining to the group insurance coverage of members of the agency force.

55.5. Agents Cash Bond Deposit - This represents the outstanding liability of the company pertaining to the cash bond deposits of members of the agency force.

This account shall be measured at amortized cost, which is generally equivalent to its face amount.

56. DERIVATIVE LIABILITIES HELD FOR HEDGING

This represents the negative fair value of derivatives that are designated and considered effective hedging instruments.

56.1. Fair Value Hedge - This represents the negative fair value of derivatives that are designated and considered effective fair value hedging instruments. Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

56.2. Cash Flow Hedge - This represents the negative fair value of derivatives that are designated and effective cash flow hedging instruments. Cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss. Any fair value changes are recognized as equity under Cumulative Foreign Currency Translation.

56.3. Hedges of a Net Investment in Foreign Operation - This represents the negative fair value of derivatives that are designated and considered effective hedging instruments for hedges of a net investment in foreign operation. Any fair value changes are recognized as equity under Cumulative Foreign Currency Translation.
NETWORTH ACCOUNTS

57. CAPITAL STOCK

This represents ownership of the stockholders in the company composed of capital stocks issued and outstanding as at report date. This shall be classified as follows:

57.1. Preferred Stock - This represents shares of stock which provide the stockholders preference as to dividends and upon liquidation. The features of the preferred stocks are varying and should be carefully analyzed whether these qualify as capital stock or creates an obligation on the part of the company. In the latter case, the preferred stocks issued should be classified as part of liabilities.

57.2. Common Stock - This represents shares of stock issued to stockholders which have the residual equity interest in the Company.

58. STATUTORY DEPOSIT

This represents the initial and subsequent inward remittances of the Home Office to the Philippine branch to comply with the statutory requirement.

59. CAPITAL STOCK SUBSCRIBED

This represents the par value of the total number of shares of capital stock subscribed by the stockholders of the company and duly covered by subscriptions agreements.

60. CONTRIBUTED SURPLUS

This represents original contributions of the stockholders as provided under the Insurance Code.

61. CONTINGENCY SURPLUS / HOME OFFICE INWARD REMITTANCES

This represents contributions of the stockholders to cover any impairment in Net Worth as required under the New Insurance Code. For foreign companies, the equivalent account for Contingency Surplus is Home Office Inward Remittances.

62. CAPITAL PAID IN EXCESS OF PAR

This represents payment for the shares of stock of the company bought or paid for in excess of its par value.
63. **RETAINED EARNINGS / HOME OFFICE ACCOUNT**

This represents the accumulated earnings of the company reduced by any losses the company may incur during a certain accounting period or by dividend declarations. For foreign companies, the equivalent account for Retained Earnings is Home Office account.

64. **COST OF SHARE-BASED PAYMENT**

This represents the cumulative amount of expenses recognized by the company arising from equity-settled share-based payment transactions. This account shall be measured at historical fair value at the time of initial recognition.

65. **RESERVE ACCOUNTS**

   65.1. Reserve for AFS Securities - This represents gains or losses arising from fair value changes of AFS securities.

   65.2. Reserve for Cash Flow Hedge - This represents gains or losses arising from fair value changes of hedging instruments in a cash flow hedge.

   65.3. Reserve for Hedge of a Net Investment in Foreign Operations - This represents gains or losses arising from change in fair value of hedging instruments in a hedge of a net investment in foreign operations.

   65.4. Cumulative Foreign Currency Translation - This represents gains or losses arising from foreign currency translations on the following:

      i.) Foreign currency denominated non-monetary items, where such gains or losses are recognized directly in equity, and,

      ii.) Translation of foreign operations with different functional currency.

   65.5. Remeasurement on Life Insurance Reserves – This represents the increase or decrease of the reserves brought by changes in discount rates.

   65.6. Remeasurement for Investment in Associates.

66. **RESERVE FOR APPRAISAL INCREMENT – PROPERTY AND EQUIPMENT**

This represents the appraisal increment on property and equipment when the company applies the revaluation model. This is calculated as a difference between the property and equipment's carrying amount and its revalued amount.
67. REMEASUREMENT GAINS (LOSSES) ON RETIREMENT PENSION ASSET (OBLIGATION)

This represents the accumulated balance of remeasurement gains or losses of a net defined benefit liability or asset.

68. TREASURY STOCK

This represents stocks already issued but reacquired by the company. This account shall be measured at cost.
STATEMENT OF INCOME ACCOUNTS

INCOME ACCOUNTS

69. PREMIUM INCOME - FIRST YEAR

This represents considerations given by the insured in exchange for the promises to pay a stipulated sum in the event of a loss covered under the insurance contract. This relates to the first year aggregate premiums earned or accrued during the accounting year pertaining to new and direct business, inclusive of all riders, clauses, or indemnities and any other supplementary features, exclusive of documentary stamp charges and premium tax.

This account shall be measured at fair value of the consideration received or receivable.

70. PREMIUM INCOME - RENEWAL

This represents the aggregate premiums earned which particularly pertain to the extension of a policy beyond its original term or the renewal of the said policy for another period upon the anniversary date of the policy. Premium renewal refers solely to the renewal premiums earned based on the base amount of the renewal certificate/policy inclusive of any rider, clauses, indemnities and any other supplementary features.

This account shall be measured at fair value of the consideration received or receivable.

71. PREMIUM GROUP - FIRST YEAR/RENEWAL

This represents the aggregate premium earned during the year pertaining to the insurance coverage granted with/without medical examination to a group of employees, the premiums of which are either paid wholly by the employer or partly by the insured members. It also includes premiums earned on insurance pool business.

This is classified as premium group-first year for aggregate premiums earned during the first policy contract year and premium group-renewal for the premiums earned after the first policy contract year.

This account shall be measured at fair value of the consideration received or receivable.
72. PREMIUM PAID-UP INSURANCE

This represents the aggregate premiums earned during the accounting period pertaining to a reduced paid up insurance pertinent to the non-forfeiture option which provides that upon cessation of premium payments, the policy will be continued for a reduced amount without any additional premiums payment.

This account shall be measured at fair value of the consideration received or receivable.

73. REINSURANCE PREMIUMS RECEIVED - FIRST YEAR

This represents the aggregate reinsurance premiums earned from ceding companies on first year business both under the automatic treaty and facultative agreements.

Whereas, the reinsurance premiums received-life pertains to the premiums on acceptances based on the face amount of the policy, the additional reinsurance premiums earned are appropriately distributed in accordance with all the corresponding policy riders.

This account shall be measured at fair value of the consideration received or receivable.

74. REINSURANCE RENEWAL PREMIUMS RECEIVED

This represents reinsurance premiums accepted or received from other insurance companies pertaining to premiums after the first policy contract year. Reinsurance Renewal Life refers to the reinsurance accepted on the renewal premiums based on the face amount of the renewal certificate/policy inclusive of all other policy riders.

This account shall be measured at fair value of the consideration received or receivable.

75. REINSURANCE PREMIUMS Ceded - FIRST YEAR/RENEWAL

This represents premiums ceded to reinsurers under the treaty and/or facultative agreement with other insurance companies. These are appropriately distributed in accordance with the premium on the life of the assured and the corresponding riders attached to the policy.

74.1. Reinsurance - First Year/Renewal - Individual Insurance

This represents premiums ceded to reinsurers under the treaty and/or facultative agreement with other insurance companies, classified as first year or renewal reinsurance on individual insurance business.
74.2. Reinsurance - Group Insurance

This represents premiums corresponding to the excess in the life insurance company's retention on group business ceded to reinsurers under the treaty and/or facultative agreement with other insurance companies.

This account shall be measured at fair value of the consideration given up or payable.

76. PROFIT COMMISSIONS

This represents the share of the profits derived from the insurance business in the form of commissions which is usually computed as a percentage of the difference between the reserves for the first year and the renewal businesses less the expenses and the claims.

This account shall be measured at fair value of the consideration received or receivable.

77. EXPERIENCE REFUND

This represents the refund received from the reinsurers on the premiums paid based on the actual mortality experienced over a given period where the experience rating or mortality is favorable to the insurer.

This account shall be recognized when earned and shall be measured at fair value of the consideration received or receivable.

78. INTEREST ON OVERDUE PREMIUM

This represents the interest earned resulting from the imposition upon the policyholder of interest on delayed payment of premiums.

This account shall be recognized when earned and shall be measured at fair value of the consideration received or receivable.

79. POLICY ISSUE FEE

This represents fees received from policyholders who request for reissuance of a policy contract in cases where the original policy may have been lost, or misplaced by the owner as evidenced by a duly notarized affidavit of loss. Reissuance is made upon the request of the policyholder and a minimal fee is charged against this account.
This account shall be recognized when earned and shall be measured at fair value of the consideration received or receivable.

80. **INTEREST INCOME**

This represents interest income due and accrued which is earned by the company from its various investments. This shall be comprised of the following sub-accounts:

80.1. Interest Income - Cash in Banks - This represents interest income earned from savings accounts and time deposits.

80.2. Interest Income - Financial Assets at FVPL

80.2.1. Securities Held for Trading

80.2.1.1. Debt Securities - Government
80.2.1.1. Debt Securities - Private

80.2.2. Financial Assets Designated at FVPL

80.2.2.1. Debt Securities - Government
80.2.2.1. Debt Securities - Private

80.3. Interest Income - AFS Financial Assets

80.3.1. AFS Debt Securities - Government - This account represents interest received and/or accrued arising from investments in government securities (such as Treasury Bills, Treasury Notes, and government bonds). These shall be classified into two: Non-taxable (NT) and those subject to Final tax (FT).

80.3.2. AFS Debt Securities – Private - This represents interest income received and/or accrued arising from investments in debt instruments issued by the private sector such as commercial papers, corporate notes and bonds.

80.4. Interest Income - HTM Investments

80.4.1. HTM Debt Securities - Government
80.4.2. HTM Debt Securities - Private

80.5. Interest Income - Loans and Receivables

80.5.1. Real Estate Mortgage Loans - This represents interest earned during the period from real estate mortgage loans.

80.5.2. Collateral Loans - This represents interest earned during the period from collateral loans.
80.5.3. Guaranteed Loans - This represents interest earned during the period from guaranteed loans.

80.5.4. Chattel Mortgage Loans - This represents interest earned during the period pertaining to interest bearing loans duly secured by a mortgage on chattels, such as cars or motor vehicles.

80.5.5. Notes Receivable - This represents interest earned during the period derived from interest bearing promissory notes.

80.5.6. Housing Loans - This represents interest earned during the period derived from housing loans.

80.5.7. Car Loans - This represents interest earned during the period derived from car loans.

80.5.8. Low Cost Housing Loans - This represents interest earned during the period arising from low cost housing loans.

80.5.9. Sales Contracts Receivables - This represents interest earned on purchase money mortgages.

80.5.10 Salary Loans - This represents interest earned on salary loans.

80.5.11. Unquoted Debt Securities - This represents interest earned on unquoted debt securities which are classified as loans and receivables.

80.5.12. Others - This represents interest income earned which are not otherwise classified under any of the other accounts. Included in this account are the interest earned from the Security Deposit Fund held by the Insurance Commission, special loans; etc.

This account shall be measured using effective interest method.
81. **DIVIDEND INCOME**

This represents income derived from cash dividend declaration on stock investments, including those accrued or earned but not yet received.

This account shall be recognized when the stockholders' right to receive payment is established and shall be measured at fair value of the consideration received or receivable.

82. **GAIN/LOSS ON SALE OF INVESTMENTS**

This represents gains/losses realized on sale of the company's investments.

This shall be composed of the following sub-accounts:

82.1. Financial Assets and Liabilities Held for Trading

82.2. Financial Assets and Liabilities Designated at Fair Value through Profit and Loss

82.3. AFS Financial Assets

82.4. Investment Property

82.5. Others - This represents gains derived from the disposal or sale of assets other than those classified above.

83. **GAIN ON SALE OF PROPERTY AND EQUIPMENT**

This represents gain realized on sale of property and equipment

84. **UNREALIZED GAIN ON INVESTMENTS**

This represents unrealized gains or losses arising from fair value changes of assets which are carried at fair values. This shall be comprised of the following sub-accounts:

83.1. Financial Assets and Liabilities Held for Trading

83.2. Financial Assets and Liabilities Designated at Fair Value through Profit and Loss

83.3. Derivative Assets/Liabilities

83.4. Investment Property
85. RENTAL INCOME

This represents income generated from the rental of investment property. Rent income shall be recognized on a straight-line basis over the lease term.

86. MISCELLANEOUS INCOME

This represents income received or earned from various sources which cannot be properly classified under any of the income accounts. It includes, among other things, income derived from SSS collection fee, proceeds from sale of old newspapers, recoveries from accounts receivable's, and other collections.

This account shall be recognized when earned and shall be measured at fair value of the consideration received or receivable.
UNDERWRITING EXPENSE ACCOUNTS

87. CLAIMS EXPENSE

This represents the aggregate losses and claims against the company arising from the life insurance contracts issued to policyholders. This can be classified as follows:

87.1. Death Claims - This represents the aggregate losses and claims incurred by the company on the sum assured of the life insurance contracts arising from the death of the assured.

87.2. Accidental Death Benefit - This represents the aggregate losses and claims incurred by the company arising from a rider in the insurance contract promising to pay double the face amount of the policy should death be caused by accident.

87.3. Disability Claims - This represents the total disability benefits paid during the period.

87.4. Health Insurance Benefit - This represents all payments made to policy owners and beneficiaries of health insurance during the period.

87.5. Medical Insurance Benefit - This represents amounts paid to doctors and hospitals for the services rendered to individual policyholders

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

88. ENDOWMENT MATURITIES/ANTICIPATED ENDOWMENT MATURITIES

This represents a specified sum of money paid to the policyholder, if he doesn't die, at the end of a designated period. Anticipated amount of endowment maturities are paid out at designated periods of time e.g., every five (5) years.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

89. CASH SURRENDER VALUES

This represents the amount due the assured, net of outstanding policy loans and interest thereon, upon the surrender of the policy before its maturity date.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
90. INCREASE/DECREASE IN AGGREGATE POLICY RESERVES

This represents the net change in the aggregate policy reserves brought by changes in all other assumptions except discount rate.

This account shall be measured and accounted for in accordance with the circular on valuation standard for life insurance reserves.

91. INCREASE IN LOADING

This represents the aggregate increase in net premiums to cover operational expenses and contingencies.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

92. RETROCESSION COMMISSION

This represents commissions paid to the reinsurers on their acceptance of the reinsurance business.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

93. COMMISSION EXPENSE

This represents a percentage of the premium paid, due or payable to the agent for the introduction of a new business. This is classified as follows:

93.1. Commission First Year - Individual - This represents a percentage of the premium of the first policy year of an individual business paid to the agent for the introduction of the new business.

93.2. Commission First Year - Group - This represents a percentage of the premium of the first policy year paid to the agent for the introduction of the new group business.

93.3. Renewal Commissions - This represents commissions due to agents on renewal premiums collected on due dates.

93.4. Overriding Commissions - This represents commissions due to general agents based on the commissions received by agents under their agency on first year and/or renewal premiums.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
94. MEDICAL FEE

This represents payment to the medical director and other authorized medical examiners for the examination done on insurance applicants.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

95. INSPECTION REPORT FEE

This represents fees paid for the medical investigators and inspection of certain policyholders with outstanding (death/disability) claims. It also includes fees for the credit or background investigation that may be conducted on prospective employees, insurance applicants, borrowers, etc.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

96. PREMIUM TAX

This represents the percentage tax due and payable to the government based on the gross direct premium income.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

97. DOCUMENTARY STAMPS

This represents the cost of documentary stamps affixed to new ordinary business issued and to addition in the face amount of the policy during the year. It also includes the documentary stamps affixed to original issues of stock certificates, policy loan contracts, agents' certificate of authority, annual statement (AS) and any other such legal documents and contracts.

97.1. Documentary Stamps - Ordinary Business/Individual - This represents the cost of documentary stamps affixed to new ordinary business issued and to addition in the face amount of the policy during the year. The cost of documentary stamps is computed based on the face amount of the policy.

97.2. Documentary Stamps - Group Business - This represents the cost of documentary stamps affixed to group policies issued during the year.
97.3. Documentary Stamps - Stocks - This represents the cost of documentary stamps affixed to new or original issues of stocks during the year.

97.4. Documentary Stamps - Policy Loans - This represents the cost for the replenishment of the Documentary Stamps Fund and credited for the amount deducted from the policy loan proceeds of the policyholder.

97.5. Documentary Stamps - Others - This represents cost of documentary stamps expense for transactions not classified under any of the above accounts such as BIR assessment for deficiency of documentary stamps in the prior years, reimbursement of documentary stamps affixed to agents' certificate of authority, affixtures of documentary stamps to the company's certificate of authority and the AS for filing with the Insurance Commission, and others.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

98. AGENCY EXPENSE

This represents expenses incurred by an agency such as cost of training and retirement, office supplies, allowances and other operating expenses of the agency which are shouldered by the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

99. PRIZES AND AWARDS

This represents the cost of prizes and awards given to insurance agents in recognition of outstanding sales performance.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
ADMINISTRATIVE EXPENSES

100. SALARIES AND WAGES

This represents basic salaries, wages and allowances, including bonuses and 13th month pay of all company officers and staff.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

101. SSS CONTRIBUTIONS

This represents the company's share in the contribution to the SSS for the benefit of the officers and staff of the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

102. PHILHEALTH CONTRIBUTIONS

This represents the company's share in the contribution for the Philhealth benefits of officers and staff.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

103. PAG-IBIG CONTRIBUTION

This represents the company's share in the contribution for the Pag-ibig Fund or the Home Development Mutual Fund for the benefit of the employees of the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

104. EMPLOYEES COMPENSATION AND MATERNITY CONTRIBUTIONS

This represents the company's share in the contribution to the SSS for the maternity, sickness and disability benefits of all company employees.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
105. **HOSPITALIZATION CONTRIBUTION**

This represents the company’s contribution for the employee’s hospitalization benefits under the group insurance coverage.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

106. **MEDICAL SUPPLIES**

This represents expenses incurred by the company for the purchase of medicines and other medical supplies for the use of or issuance to the employees.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

107. **EMPLOYEE’S WELFARE**

This represents other benefits given to the employees by the company including uniform, service awards, annual excursion expenses, Christmas party benefits, expenses incurred during company meetings, and others not specifically classified under any of the other foregoing accounts.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

108. **EMPLOYEE BENEFITS**

This represents other employee benefits granted to employees such as compensated absences (sick leaves, vacation leaves, emergency leaves), cost of share based payment transactions and other long-term employee benefits other than post-employment benefits.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

109. **POST-EMPLOYMENT BENEFIT COST**

This represents the retirement benefits of the company’s employees for services rendered. It shall comprise of the following items:

A.) Current service cost;
B.) Interest expense;
C.) Interest income; and
D.) Effect of any curtailment or adjustment.
110. PROFESSIONAL AND TECHNICAL DEVELOPMENT

This represents the expenses in developing the professional and technical capabilities of the officers and staff of the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

111. REPRESENTATION AND ENTERTAINMENT

This represents the cost of representation and entertainment incurred by the officers and staff for the promotion of the business of the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

112. TRANSPORTATION AND TRAVEL EXPENSES

This represents expenses for travel and transportation of the directors, officers, employees in connection with the business operations.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

113. INVESTMENT MANAGEMENT FEES

This represents fees paid to investment management consultants for the handling of the company’s investment portfolio and other special projects.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

114. DIRECTOR’S FEES AND ALLOWANCES

This represents fees and allowance granted to the members of the Board of Directors for their attendance in the monthly and annual meetings or whatever special meetings that the Board may have.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

115. CORPORATE SECRETARY’S FEES

This represents fees granted to the corporate secretary for services rendered during the monthly Board of Directors’ meetings, annual stockholders’ meetings or any other special meetings that the Board of Directors or the stockholders may hold.
This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

116. AUDITORS’ FEES

This represents professional fees paid to the external auditors for the year-end audit/examination of the company’s books of accounts. It also includes the monthly retainers fees, charges for the auditors’ out of pocket expenses and fees for any special audit examination or consultations, including any audit and tax consultations which may be required by the company from time to time.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

117. ACTUARIAL FEES

This represents professional fees paid to the external actuaries for whatever actuarial services that they may render for the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

118. SERVICE FEES

This represents fees paid to certain authorized individuals for services rendered to the company on a contractual or temporary basis.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

119. LEGAL FEES

This represents retainer fees and other professional fees paid to external lawyers and the company’s legal counsel for whatever legal services that they may render. It includes fees for the legal assistance that they may extend in handling court cases, court settlements, notarial fees, consultancy fees, and other legal matters.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

120. ASSOCIATION DUES

This represents membership and monthly dues and fees paid to various professional organizations/association such as Personal Management Association of the Philippines, Life Insurance Management Research
Association, Philippine Society of Medicine, Philippine Life Insurance Association, Insurance Institute of Asia and the Pacific, Actuarial Society of the Philippines, Philippine Insurance Institute, Business Club, MIB, Philippine Institute of Certified Public Accountants, etc.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

121. LIGHT AND WATER

This represents the cost of power and water consumption of the company’s Head Office and its branches.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

122. COMMUNICATION AND POSTAGE

This represents the cost of telephone and cellphone services both local and long distance toll charges; telegrams and mailing expenses, including postages and freight charges for the delivery of mails or cargoes sent to or received from the branches.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

123. PRINTING, STATIONERY AND SUPPLIES

This represents expenses incurred by the company for the printed forms/materials, stationery and office supplies used in the business operations.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

124. BOOKS AND PERIODICALS

This represents the cost of books and reference materials for office use and subscriptions to newspapers, magazines, etc.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
125. ADVERTISING AND PROMOTIONS

This represents expenses for advertising and publicity to promote the business of the company including introduction of new plans and publication of the synopsis of the company’s annual report.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

126. CONTRIBUTIONS AND DONATIONS

This represents donations given to civic associations, government agencies and contributions to charitable institutions and fund raising drives.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

127. RENTAL EXPENSE

This represents rental expense incurred on leased properties. Rental expense shall be recognized on a straight-line basis over the lease term.

128. INSURANCE EXPENSES

This represents premiums paid on insurance coverage of office furniture, fixtures and equipment, IT equipment, company cars and others. It also includes premium charges on the guarantee or fidelity bond of accountable officers and staff as may be required by the Insurance Commission.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

129. TAXES AND LICENSES

This represents taxes which are allowable deductions or expenses for income tax computation such as payment of business license, mayor’s permit, etc. It does not include taxes not deductible for income tax purposes, such as income tax assessments and penalty charges and renewal of the agent’s certificates of authority.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
130. **BANK CHARGES**

This represents the cost of checkbooks and charges imposed by the banks for overdrafts and bounced checks, payment of safety deposit box (if any), charges for the regional clearing of provincial checks and other such charges.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

131. **INTEREST EXPENSES**

This represents interest expense incurred by the company.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

132. **REPAIRS AND MAINTENANCE - MATERIALS**

This represents the cost of materials used in the repair and maintenance of company assets.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

133. **REPAIRS AND MAINTENANCE - LABOR**

This represents the cost of labor pertaining to the repairs and maintenance of company assets.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

134. **DEPRECIATION AND AMORTIZATION**

This represents the periodic depreciation and amortization of the asset cost of the company's depreciable fixed assets. It represents an estimate of the decline in service potential of the asset occurring during the period.

135. **SHARE IN PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES**

This represents the company's share in the profit or loss of its associates or joint ventures under the equity method of accounting.
136. **PROVISION FOR IMPAIRMENT LOSSES**

This represents provisions for losses that may arise from loans and receivables, accounts receivables, and other financial and non-financial assets. This shall be comprised of the following sub-accounts:

136.1. Due from Ceding Companies
136.2. Amounts Recoverable from Ceding Companies
136.3. AFS Financial Assets
136.4. HTM Investments
136.5. Loans and Receivables
136.6. Accounts Receivables
136.7. Property and Equipment
136.8. Investment Property
136.9. Intangible Assets
136.10. Others

137. **MISCELLANEOUS EXPENSE**

This represents other operating or administrative expenses which cannot be specifically classified under any of the other expense accounts.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

138. **SUSPENSE**

This represents a temporary classification of nominal accounts pending clarification of certain aspects of the transaction or compliance of certain requirements, documentation or otherwise. This account could be either a debit or a credit and needs to be reclassified subsequently as to their proper accounts. All transactions under this classification must be properly cleared out and reclassified every end of the accounting period.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

139. **PROVISION FOR INCOME TAX**

139.1. Provision for Income Tax - Final

This represents final taxes withheld from sale of shares of stock and from interest earned during the year on investments in government securities and savings deposits.
139.2. Provision for Income Tax - Current
This represents the corporate income tax of the company for the period based on its taxable income.

139.3. Provision for Income Tax - Deferred
This represents provision for deferred tax assets and liabilities.

This account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.
CHAPTER III
EXAMINATION CYCLE

A. Administrative Guidelines

A.1 Field Examination

A.1.1 Preparation

"Section 253 of the Amended Insurance Code provides that the Commissioner shall, at least once a year and whenever he considers the public interest so demands, cause an examination to be made into the affairs, financial condition and methods of doing business of every insurance company authorized to transact business in the Philippines and of any other person, firm or corporation managing the affairs and/or property of such insurance company..."

On their first day of field audit, the examiners present their designation letter to the President of the company, authorizing them to conduct the said examination (sample letter on Exhibit A.1). The examiners are then indorsed by the President to the Chief Accountant who will be responsible in bringing them to the department where they will be working and in introducing them to the respective officers of said department. The examiners then expect that they will be given a permanent area where they can work and leave in place the records/documents they are using throughout their audit.

There are two (2) groups of examiners who conduct the field audit, namely;

a. Financial examiners, who are in charge of examination of the financial condition and therefore stay most of the time in the accounting department;

b. Actuarial examiners, who verify the actuarial accounts and therefore are confined in the actuarial department;

The examiner of each group gives the listings of requirements, i.e., the books/records/documents, etc. that they will be using in their examination to the officer/employee in charge (samples of requirements are on Exhibit A.2).
A.1.2 Concluding the Examination

One week before terminating the examination, the supervisor should write a letter advising the company of the conclusion of the examination and reminding them of any record/document not yet submitted/presented to the examiner.

On the last day of the examination, the examiner with the supervisor, will inform the company of the termination of the examination and thank the management for the help and cooperation extended to them during the examination. Likewise, management will be advised that an invitation for a conference will be sent to them as soon as the report of examination is finalized.

The Insurance Specialist should study the prior year's working paper, review status of compliance of prior year's findings and analyse account movement.

A report on the examination will be prepared. As soon as the report is finished, an invitation for a conference will be sent to the company. The agenda of the conference will consist of the current findings and previous findings not complied with, if any, on the financial condition, including its paid-up capital, networth and Amended Risk-Based Capital (RBC2) ratio deficiency, if any, the methods of doing business of the company, company's compliance with the Anti-Money Laundering Act (AMLA), compliance with Corporate Governance Principles and Leading Practices and Enhanced Microinsurance Regulatory Framework for the year under examination.

If necessary, the company will be given a period of five (5) working days within which to document and/or explain any finding. Findings satisfactorily explained and/or duly supported will be deleted and the final report will be transmitted to the company.

The company will be given ten (10) working days from receipt of the final report to comply with the requirements based on the results of the examination and/or to make good the paid-up capital, networth and RBC2 deficiency in pursuance to Sections 194 and 209 of the Amended Insurance Code and Insurance Commission Circular Letter 2016-68 dated 28 December 2016.

Then, the company will be billed for examination fee pursuant to Insurance Commission Circular Letter No. 2014-15 dated 15 May 2014 and Section 437 of the Amended Insurance Code.

On the other hand, if upon examination it will be disclosed that the condition of the company is one of the insolvent or that its continuance in business would be hazardous to its policyholders and creditors, the Commissioner shall order the
company to cease and desist from transacting business in the Philippines and the case will be transferred to the Conservator, Regulation and Liquidation Division for possible action under Section 256 of the Amended Insurance Code.

A.2 Annual Statement Verification

A.2.1 Filing

Section 229 of the Amended Insurance Code provides that "Every insurance company doing business in the Philippines shall terminate its fiscal period on the thirty-first day of December every year, and shall annually on or before the thirtieth day of April of each year render to the Commissioner a statement signed and sworn to by the chief officer of such company showing, in such form and details as may be prescribed by the Commissioner, the exact condition of its affairs on the preceding thirty-first of December."

The same Codal section also states that, "An entry in the Statement which is found to be false shall constitute a misdemeanor and the officer signing such statement shall be subject to the penalty provided for under Section 442."

Meanwhile, the fee for filing of the annual statement (AS) pursuant to Insurance Commission Circular Letter No. 2014-15 dated 15 May 2014 is forty thousand pesos (P40,000) plus four hundred pesos (P400.00) for Legal Research Fund (LRF) which is equivalent to 1% of the filing fee but in no case lower than ten (P10.00) as required by RA 3870. A fine of five thousand pesos (P5,000) is imposed for each day of delay in the filing of the AS.

Sometime in January or February of every year, the Insurance Commission sends an e-mail to each life insurance company representative informing them of the issuance of the Circular Letter relative to the filing of the AS on or before April 30 of that year together with the checklist of requirements (Exhibit A.3).

The required documents to be filed together with the AS are listed in the checklist of the supporting documents of Life Insurance Companies particularly the audited financial statement and adjusted trial balance, without which, the AS cannot be accepted for filing.
A.2.2 Acceptance

The AS is presented to the Insurance Specialists in the Life/MBAs/Trust Division to find out if upon filing, all the required documents are attached and the statements properly and completely accomplished based on the checklist of requirements (Exhibit A.3). If found complete and in order, the Insurance Specialist will prepare an order of payment (OP) indicating the filing fee and/or penalty for late filing in pursuant to CL No. 2014-15 and places “Ok for Payment” on the front cover of the AS.

The company representative presents the OP form together with the AS to the cashier. The latter will accept the OP form, collects payment and issues an official receipt (OR). The cashier indicates the OR number, date and amount received, affixes initials on the cover of the AS, and returns it to the company representative.

The company representative returns the AS and receiving copy of OP form and presents the OR to Insurance Specialist. The latter will stamps “Received” on all copies of the AS and affixes initials and date and will release the receiving copy of the AS to the former.

A.2.3 Assignment

Based on the work program, assignments to Insurance Specialist at Life/MBAs/Trust Division is on a selective basis taking into account that the capabilities of each specialist match the corresponding type of company.

A.2.4 Verification, Analysis and Evaluation of Accounts

Guided by the examination/verification procedures, the Insurance Specialist verifies and analyzes the accounts in the AS. If additional documents are needed, a letter is sent to the company giving it ten (10) working days, as the case may be, within which to comply. If the documents are submitted and the analysis of the accounts are completed, the working balance sheet, computation of the RBC2 ratio and other financial schedules are prepared.

The results of the verification are reviewed by the Supervising Insurance Specialist and passed upon by the Division Manager.

Then the company President and/or his authorized representative/s are invited in writing to a conference to discuss the results of the verification.
A.2.5 Transmittal of Results of the Verification

The Insurance Specialist determines if the company commented/answered within the ten (10) working days. If not, a follow up letter (FUL) is now prepared; which indicates that the company must comply within five (5) working days. If after the issuance of the FUL and the company still fails to comply with the requirements, a show cause letter (SCL) is made requiring the company to comply within five (5) working days upon receipt of the letter. If after the issuance of the SCL and the company still fails to comply with the requirements, a cease and desist order (CDO) is now issued and if the CDO is found in order, the Commissioner approves and signs the CDO, forwards same to the Legal Services Group and furnishes a copy to the Life/MBAs/Trust Division.

If the company commented/answered within the deadline required, the Insurance Specialist evaluates if the company has fully complied with the requirements and then prepares a reply letter.

A.2.6 Approval of the Annual Statement

After the company has fully complied with the requirements, or if no deficiency nor impairment is noted, the Insurance Specialist prepares Synopsis of the AS and the corresponding Approval Letter indicating that the approved synopsis must be published in a newspaper of general circulation pursuant to Section 231 of the Amended Insurance Code.

A.2.7 Publication of the Synopsis of the Annual Statement (SAS)

Pursuant to Section 231 of the Amended Insurance Code, the company is required to furnish the Insurance Commission with the pertinent newspaper clippings of the published synopsis within thirty (30) days from receipt of the approved letter.

The Insurance Specialist (IS) shall follow up the publication of the SAS, and if errors are noted, acknowledgement letter is prepare with the advice to publish an erratum. The IS monitors the company’s publication of the erratum and if found in order, acknowledgement letter is prepare and the verification/examination is now considered closed.
Sir/Madam:

This will be presented to you by ____________, Supervising Insurance Specialist ____________, Senior Insurance Specialist II and ____________ Insurance Specialist II of this Commission, whom I designated as my representatives to make an examination as of December 31, 20__, into the affairs, financial condition and methods of doing business of ____________ (Company Name) pursuant to Section 253 of the Insurance Code, as amended.

Please extend to them your assistance and cooperation for the early completion of the examination.

Very truly yours,

DENNIS B. FUNA
Insurance Commissioner
Date ____________________

The Chief Accountant

and Other Officials Concerned:

In connection with the examination into the affairs, financial condition and methods of doing business of ___________________________ as of 31 December ______, please present and/or submit to the examiners the following:

1. **Non-Financial Records/Documents**

   1. **For Review and/or Verification**
      a. Stock and Transfer Book
      b. Stock Certificate Booklets (Stubs, etc.)
      c. Minutes of Stockholders' and Board Meetings
      d. Articles of Incorporation, By-Laws and Amendments
      e. General Agency Agreements
      f. Other Agreements such as Custodianship Agreement, Management Agreement, etc.
      g. Manual Operating Procedures, if any
      h. Fidelity and Surety Bond for Cashier and other Accountable Officers
      i. Surety Bond for General Agents
2. **For Submission**
   a. Particulars of Reinsurance Treaties
   b. List of all books of account currently being used
   c. List of stockholders as of 31 December 20___ indicating nationality, number of shares owned, par value per share, percentage of ownership, contributed surplus, and indicate in the remarks column whether stockholder is an affiliate or sister company
   d. List of current officers, Chairman of the Board and Directors, indicating date of election
   e. List of agents, brokers, reinsurance brokers, and general agents with the corresponding certificate of authority numbers and date of issuance/expiry and their addresses
   f. List and addresses of branches and/or agencies
   g. List of adjusters, addresses, certificate of authority, number and date of issuance

II. **Financial Records/Documents**

1. Adjusted Trial Balance as of 31 December ________
2. Audited Financial Statement as of 31’ December ____ with Auditor’s Adjustments
3. Detailed Schedules of:
   a. All Asset Accounts
   b. All Liability Accounts

   Reinsurance accounts should be patterned after the schedule in the Annual Statement.

4. All Books of Accounts currently being used
5. Other Records
   a. Official Receipts
   b. Cash Vouchers
   c. Paid/Returned Checks
6. Photocopies of proofs of tax payments
   a. Premium Tax
   b. Documentary Stamp Tax
   c. Fire Service Tax
   d. Expanded Withholding Tax
   e. Real Estate Tax on property owned

7. Other records which may be needed from time to time

The above documents are to be submitted within ten (10) days from receipt hereof.

Very truly yours,

____________________________________

Life/MBAs/Trust Division
Examiners

Received:

Signature: __________________________
Title: __________________________
Date received: ______________________

Due date for submission of above documents: ______________________
CHECKLIST OF SUPPORTING DOCUMENTS
OF LIFE INSURANCE COMPANIES
For the Year Ended 31 December 20__

NAME OF COMPANY

<table>
<thead>
<tr>
<th>DOCUMENT</th>
<th>HARD COPY</th>
<th>SOFT COPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>20__ Audited Financial Statements with comparative figures for 20__,</td>
<td>✓</td>
<td>✓ (PDF/</td>
</tr>
<tr>
<td>signed by an External Auditor</td>
<td></td>
<td>scanned</td>
</tr>
<tr>
<td>accredited by the Insurance Commission, and duly received by the</td>
<td></td>
<td>format)</td>
</tr>
<tr>
<td>Bureau of Internal Revenue (BIR)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Adjusted Trial Balance as of 31 December 20__</td>
<td>✓</td>
<td>✓ (PDF/</td>
</tr>
<tr>
<td>signed by the Chief Accountant</td>
<td></td>
<td>scanned</td>
</tr>
<tr>
<td>format)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Reconciliation Statement of the Audited Financial Statements versus</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>the Annual Statement figures</td>
<td></td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>4. Reconciliation of figures/accounts in the Adjusted Trial Balance</td>
<td>✓</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>(breakdown/groupings) to tally with the figures/accounts in the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Computation of Risk-based Capital Ratio of the company</td>
<td>✓</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>6. Certification on the balances of all Actuarial accounts and a</td>
<td>✓</td>
<td>✓ (PDF/</td>
</tr>
<tr>
<td>Statement of Opinion on Policy Loans by the Company’s Actuary</td>
<td></td>
<td>scanned</td>
</tr>
<tr>
<td>duly accredited by the Insurance Commission</td>
<td></td>
<td>format)</td>
</tr>
<tr>
<td>7. 20__ General Information Sheet (GIS) filed with Securities and</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Exchange Commission (SEC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DOCUMENT</td>
<td>HARD COPY</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>8</td>
<td>Statement of Securities Account of BTR-ROSS/Securities Account for Tax Tracking as of 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Certification from the Custodian Bank for Dollar-denominated Bonds as of 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>10</td>
<td>Schedule of Dollar-denominated Bonds using the attached Life – Required Format No.1</td>
<td>✓</td>
</tr>
<tr>
<td>11</td>
<td>Supporting documents of all investments not presented during the inventory</td>
<td>✓</td>
</tr>
<tr>
<td>12</td>
<td>Detailed schedule showing the computation of Fair Market or Book Value of Schedule of Bonds and Treasury Bills, together with the pricing documents (Column 13 of Schedule A1 and A2 of Annual Statement. Refer to Life – Required Format No. 6)</td>
<td>✓</td>
</tr>
<tr>
<td>13</td>
<td>Certification from Philippine Depository &amp; Trust Corp. (PDTC) for the Scriptless Stock Certificates as of 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>14</td>
<td>Breakdown/Computation/Schedule of Fluctuation Reserve-Bonds/Stocks and Revaluation Reserve – Real Estate as reported in the Annual Statement</td>
<td>✓</td>
</tr>
<tr>
<td>15</td>
<td>Bank Statements/Passbooks of all Current, Savings and Time Deposit accounts as of 31 December 20__ and 31 January 20__, together with the pertinent Bank Reconciliation statements</td>
<td>✓</td>
</tr>
<tr>
<td>16</td>
<td>Detailed schedule of Deposits-in-Transit and Undeposited Collections, showing in columns the Official Receipt Number, Official Receipt Date, Date Deposited and Name of Depository Bank</td>
<td>✓</td>
</tr>
<tr>
<td>17</td>
<td>Certification of Receivables from Government Agencies/Government-owned and Controlled Corporations as of 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>18</td>
<td>Sales Invoices and Official Receipts to support purchases of Electronic Data Processing (EDP)</td>
<td>✓</td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Equipment during the year ended 31 December 20__</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Official Receipts to support payments of Premium Tax, Documentary</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Stamps Tax and Real Estate Tax during the year ended 31 December 20__</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Letter of Assessment (LOA) from BIR Tax Assessment and proof of</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>payments (BIR Form No. 0605)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. For companies with Variable Contracts:</td>
<td>✓</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>a. Separate Annual Statement for each Variable account</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>b. Schedule showing balance sheet items in Foreign Currency and their Peso</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>equivalent, including a sub-schedule showing the currency breakdown in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>case an account consists of multiple currencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Statement of Securities Account of BTR-ROSS/Securities Account for</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Tax Tracking as of 31 December 20__</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Certification of investments as of year-end from custodian bank for</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>the company's Dollar-denominated Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Schedule of Dollar-denominated bonds using the attached Life –</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Required Format No. 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Statement of Account as of year-end from Philippine Depository &amp;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Trust Corp. for Scriptless Equity Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Bank Statements/Passbooks of all Current, Savings and Time Deposit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>accounts as of 31 December 20__ and 31 January 20__, together with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the pertinent Bank Reconciliation statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DOCUMENT</td>
<td>HARD COPY</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>h.</td>
<td>Detailed schedule of Deposits-in-Transit and Undeposited Collections showing in columns the Official Receipt Number, Official Receipt Date, Date Deposited and Name of Depository Bank</td>
<td>✓</td>
</tr>
<tr>
<td>22.</td>
<td>Minutes of Meetings of the Board and Executive Committees, including a copy of Board Resolutions made during the year ended 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>23.</td>
<td>Amended Articles of Incorporation relative to the increase of Authorized Capital Stock, if any</td>
<td>✓</td>
</tr>
<tr>
<td>24.</td>
<td>Copy of the 20__ Annual Statement</td>
<td>✓</td>
</tr>
<tr>
<td>25.</td>
<td>Separate Analysis of Operations (Page 4 of Annual Statement) for Variable Contracts</td>
<td>✓</td>
</tr>
<tr>
<td>26.</td>
<td>For Foreign Companies, Annual Statement on Worldwide Business, and Statement of Receipts and Disbursements as of 31 December 20__</td>
<td>✓</td>
</tr>
<tr>
<td>27.</td>
<td>Schedule showing balance sheet items in Foreign Currency and their Peso equivalent, including a sub-schedule showing the currency breakdown in case an account consists of multiple currencies</td>
<td>✓</td>
</tr>
<tr>
<td>28.</td>
<td>List of current Members of Board of Directors, Independent Directors, their respective Addresses, Positions; and list of the Chairman and Members of the Audit, Remuneration and Nomination Committees</td>
<td>✓</td>
</tr>
<tr>
<td>29.</td>
<td>Computation of Premium Tax during the year, using the attached Life – Required Format No. 2</td>
<td>✓</td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>30. Computation of Documentary Stamp Tax in accordance with Republic Act No. 10001 using the attached Life – Required Format No. 3 (Note: Number of Policies Issued and Total Sum Insured should tally with the figures in the Annual Statement)</td>
<td>✓</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>31. Schedule containing the (i) Full Name (i.e., First Name, Middle Initial, Last Name) and (ii) official e-mail address of one (1) company representative assigned to upload the regulatory submission requirements for Financial Reporting Framework, Valuation Standards for Insurance Policy Reserves and New Risk-based Capital Framework via the Online Uploading System pursuant to Insurance Commission Circular Letter No. 2015-38 dated 27 July 2015.</td>
<td>✓</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>j. DST – Mortgages, pledges and deeds of trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k. DST – Debt instruments (i.e., original issue of debentures, bonds, loan agreements, certificates of indebtedness, promissory notes, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l. DST – Shares of stocks (i.e., orig. issue and transfer of shares)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>m. DST – Sale or conveyance of real properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n. DST – Foreclosure of real properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o. DST – Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>p. Fringe Benefits Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>q. Local Taxes – Local Business Tax (LBT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>r. Local Taxes – Real Property Tax (RPT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>s. Community Tax Certificate (CTC) Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t. Mayor’s Permit Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>u. Fire Permit Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v. Electrical Inspection Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>w. Sanitation Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>x. Medical/Health Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>y. Other Fees and Licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>z. Other Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33. Annual Income Tax Return for the Calendar Year ended 31 December 2016 i.e., BIR Form No. 1702-RT or 1702-EX, whichever is applicable</td>
<td>✓</td>
<td>(PDF/scanned format)</td>
</tr>
<tr>
<td>34. For companies with Microinsurance business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Enhanced Performance Indicators and Standard in Microinsurance (i.e., SEGURO)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>using Insurance Commission Circular 2016-63 dated 16 December 2016; and</td>
<td>(Microsoft Excel format)</td>
<td></td>
</tr>
<tr>
<td>b. Copy of the following:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.1. Production:</td>
<td>✓</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of the Assured, Policy Number, Certificate Number, Sum Assured, Premium, Premium Tax, Documentary Stamp Tax, and Other Taxes (per Product Line)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.2. Collections:</td>
<td>✓</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of the Assured, Policy Number, Certificate Number, Sum Assured, Premium, Premium Tax, Documentary Stamp Tax, Other Taxes, Amount Collected, Official Receipt Number, and Official Receipt Date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.3. Claims paid:</td>
<td>✓</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of Assured/Claimant, Claim Number, Date Filed, Policy Number, Sum Insured, Date of Loss, Amount of Loss, Nature of Claim, Date Paid, and Voucher Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. For companies with Overseas Filipino Worker (OFW) business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Computation of Legal Reserves; and</td>
<td>✓</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>b. Copy of the following:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of the Assured, Policy Number, Certificate Number, Sum Assured, Premium, Premium Tax, Documentary Stamp Tax, and Other Taxes (per Product Line)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.2. Collections:</td>
<td></td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of the Assured, Policy Number, Certificate Number, Sum Assured, Premium, Premium Tax, Documentary Stamp Tax, Other Taxes, Amount Collected, Official Receipt Number, and Official Receipt Date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.3. Claims paid:</td>
<td>✓ (Microsoft Excel format)</td>
<td></td>
</tr>
<tr>
<td>Schedule showing separately in columns the Name of Assured/Claimant, Claim Number, Date Filed, Policy Number, Sum Insured, Date of Loss, Amount of Loss, Nature of Claim, Date Paid, and Voucher Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36. Detailed schedule of the following Actuarial accounts (with printed copies of the (i) First Page and (ii) Last Page (showing the Total of the said schedules):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Seriatim List of all Policyholders indicating therein the minimum basic information: i.e. Policy Number, Policyholders, Age, Issue Date, Effectivity Date, Plan, Amount of Insurance, Net and Gross Premiums Due &amp; Uncollected, Reserves, Cash Values) using the attached Life – Required Format No. 5</td>
<td>✓ (1st and last page only)</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>b. Policy Loans (Cash Loan/Automatic Premium Loan) indicating the minimum basic information: Policy Number, Policyholder’s Outstanding Balance, Interest (both Earned</td>
<td>✓ (1st and last page only)</td>
<td>✓ (Microsoft Excel format)</td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>and Unearned), Cash Value and Reserves as of 31 December 20__</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Premium Deposit Fund (with Certification to be signed by the Comptroller with rank of at least Vice President) indicating the Policy Number, Plan, Amount of Insurance, Issue Date, Maturity Date of the Plan, Annual Premium, Outstanding Premium Deposit Fund Amount of the Plan</td>
<td>✓</td>
<td>(Microsoft Excel format for the Schedule of Premium Deposit Fund)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(PDF/scanned format for the Certification)</td>
</tr>
<tr>
<td>d. Amount Recoverable from Accepting Companies; and</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(1st and last page only)</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>e. Claims Payable as of 31 December 20__, and Schedule of all Claims Filed and Claims Paid for the 1st Quarter of 20__</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(1st and last page only)</td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>37. Contact Details of the Company Representative from:</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Microsoft Excel format)</td>
</tr>
<tr>
<td>a. Accounting Unit/Division/Department:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.1. Full name (i.e., First Name, Middle Initial, Last Name)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.2. Designation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.3. Official Telephone Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.4. Official Fax Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.5. Official E-mail Address</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Actuarial Unit/Division/Department:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.1. Full name (i.e., First Name, Middle Initial, Last Name)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOCUMENT</td>
<td>HARD COPY</td>
<td>SOFT COPY</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>b.2. Designation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.3. Official Telephone Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.4. Official Fax Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.5. Official E-mail Address</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Anti-money Laundering Unit/Division/Department:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.1. Full name (i.e., First Name, Middle Initial, Last Name)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.2. Designation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.3. Official Telephone Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.4. Official Fax Number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.5. Official E-mail Address</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

38. FLASH DRIVE NO. 1

- Containing requirements in soft copy format for Item Nos. 6, 36 (a), 36 (b), 36 (c), 36 (d), and 36 (e) related to actuarial accounts, due to huge file size

39. FLASH DRIVE NO. 2

- Containing all remaining requirements in soft copy format, EXCEPT Item Nos. 6, 36 (a), 36 (b), 36 (c), 36 (d), and 36 (e)
B. Audit Guidelines

B.1 Physical Inventory

B.1.1 Why:
To prove the existence, ownership and amount of the item being examined, and to verify its status and/or condition (not pledged, restricted, free from lien or any encumbrance).

B.1.2 When:
Physical count of assets being examined shall be conducted as needed by the Insurance Specialist assigned to handle the examination. As a matter of practice, the unscheduled count is done soon after the end of the period (usually a year) to minimize after-date transactions, and at the same time giving the company reasonable time to complete pertinent supporting schedules.

B.1.3 How:

1. On the day of the count/inventory, the Supervising Insurance specialist informs the company of the physical count to be done for the year under examination. The company is given reasonable time, when appropriate, to put the required documents together.

2. At the time of inventory, the company provides the Insurance Specialist with the following:

(a) Schedules and working papers relative to the asset being examined, and
(b) Items to be counted preferably arranged in a manner listed in the schedules.

3. A company representative should be available at all times to answer any queries relative to the asset being counted. Any finding(s)/exception(s) is immediately communicated to the company representative for appropriate action. The company representative is given reasonable time to reply and/or submit the required/appropriate documents.

4. A final report is prepared and discussed with the Chief Financial Officer (or equivalent) of the company.
B.1.4 Coverage:
Generally, all assets are subject to physical count including those assets covered by Investment Management Agreement (IMA) duly approved by the Insurance Commission. However, focus shall be on the following:

A. Cash on Hand
B. Cash in Bank
C. Bonds
D. Stocks
E. Treasury Bills
F. Security Fund
G. Real Estate
H. Real Estate Mortgage Loan
I. Collateral Loan
J. Guaranteed Loan
L. Car Loans
M. EDP Machine

B.1.5 Audit Procedures:

A. Cash on Hand

1. Funds should be presented for actual physical count
   Petty cash fund, commission fund, documentary stamps fund, change fund, revolving fund, undeposited collections, etc.

2. Confirmed amount of funds should reconcile with the general ledger.

3. The schedule of Cash in the company’s office should be presented to Insurance Commission containing the following information: (Ref: Schedule of Annual Statement)
   (a) Nature of cash in company’s office
   (b) Encumbrance
   (c) Monthly balances

4. Funds held by branches should be supported by a Certificate of the Custodian as to the existence and amount.

5. Differences and/or unaccounted items arising from reconciliation should be adequately explained.
B. Cash in Bank

1. The schedule of Cash in Bank should be presented to Insurance Commission containing the following information (Ref: Schedule of Annual Statement)

(a) Name and location of bank or trust company
(b) Account Number
(c) Encumbrance
(d) Monthly balance
(e) Interest

2. Bank statements/passbooks, certificate of time deposits, debit/credit memos should be available for inspection.

3. In case of late bank statements/passbooks – amount directly confirmed by bank with the Insurance Commission may be used subject to reconciliation with balance per book.

4. If available at the time of count, reconciliation of each bank account should be presented.

5. Specialized/new products should be supported by Certification from the BSP that the same is allowable or approved for sale through bank and other authorized dealers.

C. Bonds

1. The schedule of Bonds should be presented to Insurance Commission containing the following information. (Ref: Schedule of Annual Statement)

(a) Description- as to category

1. As to financial assets:
   • FVPL
   • HTM Investments
   • AFS
2. Domestic or foreign issues
3. Government or private

(b) Date acquired/issued
(c) Date of maturity
(d) Certificate’s serial number
(e) Certificate’s face value
(f) Encumbrance, if any
(g) Acquisition cost
(h) Interest rate
(i) Book Value

2. Documents supporting bonds should be presented for actual physical count.

Ex. Bureau of the Treasury (BTR) Statement of Securities Account, Statement of Holdings

If on hand – original bond certificates, agreements, custodianship receipt

If purchased during the year – confirmation of sale

If rolled over – roll over documents

If matured and not rolled over – official receipts, bank statements, and bank-validated deposit slips

If foreign denominated bonds- certification from the custodian bank

3. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.

D. Stocks

1. The schedule of stocks should be presented to Insurance Commission containing the following information. (Ref: Schedule of Annual Statement)

(a) Description of securities
(b) Certificate number
(c) Date acquired
(d) How acquired - whether purchased, stock dividend or foreclosed with corresponding shares
(e) Encumbrance, if any
(f) Where kept
(g) Number of shares
(h) Par value
(i) Rate used to obtain market value
(j) Market value
(k) Book value
(l) Acquisition cost
(m) Dividend
2. Certificate of stocks should be presented for actual physical count.
   (a) Check details of certificates being counted against schedule;
   (b) Check if the stock certificate is in the name of the company, or if registered in
       the name of the nominees, check if there is an endorsement in favor of the
       company;
   (c) If unissued, ask for the confirmation of purchase, vouchers and paid checks;
   (d) If sold, ask for the confirmation of sale, official receipt, bank
       statements/passbook and bank-validated deposit slip;
   (e) For scriptless stock certificates, ask for certification from Philippine
       Depository & Trust Corp. (PDTC) as of examination date registered in the name
       of the company; and
   (f) If certificates are held by a broker, ask for certification from PDTC as of
       examination date under the name of the broker but with sub account in the name
       of the company.

3. Any difference between physical count against schedule presented should be
   reconciled and adequately explained.

E. Treasury Bills

1. The schedule of Treasury Bills should be presented to Insurance Commission
   containing the following information, (Ref: Schedule of Annual Statement)
   (a) Category
   (b) Date acquired/issued
   (c) Date of maturity
   (d) Certificate’s face value
   (e) Certificate’s serial number
   (f) Purchased from
   (g) Acquisition cost
   (h) Book value
   (i) Interest (Discount)
   (j) Encumbrance, if any

2. Documents supporting treasury bills should be presented for actual physical
   count.
If on hand - original certificate of treasury bills and confirmation of sale from the seller, custodianship receipt or certified true copy of withdrawal request of dealers from the BSP and BSP's debit memo.

If not on hand - (Under custodianship agreement with BSP) BSP's custodianship receipt or certified true copy of withdrawal request of dealers and BSP's debit memo.

If rolled over - roll over documents

If matured and not rolled over – official receipts, bank statements, and bank-validated deposit slips

If foreign denominated bonds- certification from the custodian bank

3. Documents supporting government securities/treasury bills acquired under the Book Entry System (BES) of the BSP.
   (a) Memorandum of Agreement with the BSP
   (b) BSP's Weekly Securities Account Confirmation Statement
   (c) If acquired through primary purchases certified copies of:
       • BSP's acceptance of Bill tender
       • BSP's Securities Account Credit Memo
       • BSP's Debit Advice (Demand Draft Account)

4. If acquired through Secondary Trading (with BES Participants) certified copies of:
   (a) Confirmation of Purchase from buyer
   (b) Confirmation of Sale from seller
   (c) BSP's Securities account Debit Memo to the seller
   (d) BSP's securities account Credit Memo to the buyer
   (e) Redemption
       • BSP's Securities Account Debit Memo
       • BSP's Credit Advice (Demand Deposit Account)

5. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.
F. Security Fund

1. Schedule of Security Fund Contributions should be presented to Insurance Commission containing the following information:

(a) Amount and date of contribution to the Fund

(b) Amount of Refund or Additional Contributions received/made, if any based on the latest Insurance Commission reassessment.

(c) Amount of Accrued Interest Receivables

G. Real Estate

1. The schedule of real estate owned should be presented to Insurance Commission containing the following information. (Ref: Schedule of Annual Statement)

(a) Title number, city/province

(b) Encumbrance, if any

(c) Where kept

(d) Lot no., area & location of land; size, description of buildings

(e) Date acquired

(f) Name of vendor

(g) Actual cost

(h) Book value

(i) Market value

(j) Rental earned

(k) Income received

(l) Amount of insurance of building

2. Documents supporting ownership by the company should be presented for actual physical count.

(a) Original transfer certificate of title (TCT) duly annotated, mortgage agreements, appraisal/reappraisal report if any etc.
(b) For newly acquired property - deed of sale; proof of payment (cancelled checks, official receipts, cash vouchers)

(c) For installment sales - installment receivable, (purchase- money mortgages) collateralized asset

(d) In case of condominium projects - Condominium Certificate of Title (CCT). If none is available, the pertinent contract/agreement.

(e) In case of foreclosed properties - court reception; loan balance including capitalized interest and penalties

(f) If title is with the Register of Deeds - application for registration duly acknowledged by the Office of the Register of Deeds and the official receipt for filing fee

3. Discrepancies/exceptions should be reconciled and adequately explained.

H. Real Estate Mortgage Loan

1. The schedule for real estate mortgage loan should be presented to Insurance Commission containing the following information. (Ref: Schedule E of the Annual Statement)

(a) Name and address of mortgagor;

(b) Title number, location and description of property mortgaged

(c) Record of Mortgage registry number entry number of Inscription/instrument, amount of loan granted

(d) Where kept

(e) Term - date given, date due

(f) Amount of original loan

(g) Market value of land mortgaged

(h) Sound value of building

(i) Amount of fire insurance held by company

(j) Balance

(k) Principal
(i) Interest

2. Documents evidencing loans should be presented for physical count.

(a) For real estate mortgage (REM) - original TCT, or CCT duly annotated by the Registry of Deeds (RD) with the following information entry number, date of inscription/instrument, amount of loan and the annotation should be in the name of the company and mortgage loan agreement if there any.

(b) Annotated Special power of attorney for those borrowers’ whose TCT/CCT not in their name;

(c) If the amount of loan is still outstanding as of the year end and are fully paid before the inventory date the company may submit copy of certification of release of loans and official receipts for payments received;

(d) If the TCT/CCT is in process for annotation at the RD, submit copy of the transmittal letter duly received by them.

3. Discrepancies/differences should be reconciled and adequately explained.

I. Collateral Loan

1. The schedule for collateral loans should be presented to Insurance Commission containing the following information. (Ref: Schedule of Annual Statement)

(a) Name and address of borrower

(b) Term of loan - date of loan, date of maturity

(c) Amount of original loan

(d) Description of securities held as collateral

(e) Principal

(f) Interest

2. Documents evidencing loans should be presented for physical count.

(a) Original copy of security held as collateral such as (stock/bonds/TCTs/CCTs/policy contract)

(b) Certificate of the Corporate Secretary of the Issuer that the securities are pledged as collateral

(c) Promissory Note

3. Discrepancies/Differences should be reconciled and adequately explained.
J. Guaranteed Loans

1. The Schedule of Guaranteed Loans should be presented to Insurance Commission containing the following Information. (Ref: Schedule of Annual Statement)
   (a) Name and address of borrower
   (b) Guaranteeing entity
   (c) Term of loan – date of loan, date of maturity
   (d) Amount of original loan
   (e) Principal
   (f) Interest

2. Guaranteed loans require prior approval from Insurance Commission and document/s evidencing the approval should be presented during actual physical count.

3. Differences resulting from physical count against schedule should be reconciled and adequately explained.

L. Car Loans to Company Officers

1. The Schedule of Car Loans should be presented to Insurance Commission containing the following Information. (Ref: Schedule of Annual Statement)
   (a) Name and address of borrower
   (b) Term of loan – date of loan, date of maturity
   (c) Amount of original loan
   (d) Insurance coverage – amount and period
   (e) Principal
   (f) Interest

2. Document supporting the loan should be presented
   (a) Board resolution embodying the financial assistance program
   (b) Promissory Notes, Chattel Mortgage, Car Registration / Updated Official Receipt
   (c) Insurance Coverage to extent of loan balance.
3. Differences resulting from physical count against schedule presented should be reconciled and adequately explained.

M. Electronic Data Processing Machine

1. The Schedule of Electronic Data Processing (EDP) Machine and Generator Set should be presented to Insurance Commission containing the following information. (Ref.: Schedule of Annual Statement).
   
   (a) Particulars/description
   (b) Date of purchase
   (c) Accumulated depreciation
   (d) Net book value
   (e) Asset not admitted
   (f) Admitted assets
   (g) Remarks

2. Documents evidencing purchases should be presented for physical count.
   
   (a) Cash voucher
   (b) Invoices
   (c) Official receipts
   (d) Delivery receipts.

3. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.
B.2 Assets

B.2.1 Investment in Stocks

Audit Objectives:

To prove existence of the investment in stocks and ownership of the Company and ensure that the investments are fairly presented in the Annual Statement. This account may take the form of the following:

1. Preferred stock - cumulative, noncumulative, participating, nonparticipating
2. Common stock
3. Guaranteed stock
4. Par value stock
5. No-par value stock
6. Debenture stock
7. Escrow stock
8. Bonus
9. Scrip Stock
10. Over issued stock
11. Deferred stock
12. Others - founder's shares, redeemable shares, treasury shares, watered stock

Audit Procedures:

A. Prove Existence

Conduct Physical Inventory

B. Ownership

1. Agree on the details of the stocks counted.

Ensure that all the stocks are under the name of the company, or, if registered in the name of the nominees, they are properly endorsed in favor of the company, or accompanied by a power of attorney.

2. For stock certificates which are not available or not presented during the physical count, present confirmation of purchase or confirm with the stock transfer agent.
If sold between count date and review date, verify transactions and present documents.

If partially sold, verify transactions, present documents and confirm on the balance retained with the stock broker or stock transfer agent.

If under subscription agreement and only partially paid, verify purchase documents, official receipts of payments, confirmation from the issuing companies or broker, cash vouchers and paid checks.

3. Stock Dividends

Documents evidencing stock dividends declared must be received and accounted for. Documents may take the form of the actual certificate itself, notice of dividend declaration, certification of corporate secretary and board resolutions.

Admissibility:

Any investment in preferred, common or guaranteed stocks of any solvent corporation or institution created or existing under Philippine laws shall be admitted provided

a. Regular dividends shall have been paid for the past three years next preceding the acquisition of such stock;

   Investment in a corporation which has not paid regular dividends shall have prior approval from the commission.

b. If the stocks are guaranteed, the amount should not be in excess of fifty percent of the total amount of preferred or common stock of the guaranteeing corporation.

c. Investments in any one corporation in excess of 10% of the total admitted assets as of December 31st preceding the date of such investment, shall have special approval from the commission.

d. Other investment in stocks not included in the above paragraph shall have prior approval from IC.

e. For partially paid stocks, the amount up to the extent of the paid subscription, is admitted. If the liability portion was recorded, the whole amount can be admitted.
Valuation:

The stock of an insurance company shall be valued based on Section 214 (c) (d) (h).

As follows:

a. Stocks shall be valued at cost if not quoted or traded. However if the company wishes to value the stocks at book value, the company should do the following:

a.1. Submit audited financial statements for the last 3 years.

a.2. Submit proof of receipts of dividends for the last 3 years.

b. Stocks shall be valued at market value if quoted or traded, using the value at last transaction date.

Applicable provision of the amended insurance code and circular letter:

Section 206 (b) (5) (6)
Section 214 (c) (d) (h)
CL 2014-21
CL 2014-17
CL 2014-19
B.2.2 Investment in Government Securities (Bonds/Treasury Bills)

Audit Objectives:

To prove existence of the investment in bonds and ownership of the Company and to ensure that the investments are fairly presented in the Annual Statement.

Audit Procedures:

A. Prove Existence

Conduct physical inventory. Refer to the guidelines on Physical Inventory.

B. Ownership

1. If certificates are not available or not presented during the physical count, verify transactions and supporting documents and confirm with the issuing company.

2. Examine documents to support collection of interest.

Admissibility:

An insurance company may purchase, hold, own and convey:

a. Bonds or other evidence of debt of the Government of the Philippines or its political subdivisions authorized by law to issue bonds.

b. Bonds or other evidences of debt of government-owned or controlled corporations and entities, including the Central Bank.

c. Bonds, debentures or other evidences of indebtedness of any solvent corporation or institution created or existing under the laws of the Philippines, in accordance with the provisions of Section 206 (b) (4) of the Amended Insurance Code.

d. Foreign-denominated bonds.

Valuation:

Bonds shall be measured as follows:

a. If designated as HTM- at amortized cost
a.1 If purchased at premium, recognize the bonds at face value and amortize the premium throughout the life of the bond.

a.2 If purchased at a discount, at face value. A liability account shall be set up for the unamortized discount.

a.3 If purchased at par, par value.

b. If designated as FVPL (upon initial recognition) or AFS, at fair value.

b.1 If purchased at par, at par value;

b.2 If purchased at premium, recognize the bonds at face value and amortize the premium throughout the life of the bond.

b.3 If purchased at a discount, at face value. A liability account shall be set up for the unamortized discount.

Applicable Provision of the Amended Insurance Code and Circular Letters

Section 206 (b) (2) (3) (4)

CL 2014-21
CL 2014-17
CL 2014-19
CL 2015-25
B.2.3 Other Investments

Audit Objectives:
To prove existence and ownership of investment made

Audit Procedures:

A. Prove Existence

   Conduct physical count. Refer to the guidelines on Physical Inventory.

B. Ownership

   a. Ensure that all stocks are in the name of the company, or, if registered in the name of the nominees, they are properly endorsed in favor of the company or accompanied by a power of attorney.

   b. For stock certificates which are not available or not presented during the physical count, present confirmation of purchase and confirm with the issuing company.

Admissibility:

Maximum of two (2) shares per class.

Valuation:

Investment in stocks of sports clubs and other proprietary shares shall be valued at cost or market value if quoted or traded.

Applicable Provision of the Amended Insurance Code and Circular Letters:

Section 200 (J)

CL 2014-17

CL 2014-21
B.2.4 Property and Equipment

Audit Objectives:
To prove the existence and ownership of the IT equipment and to establish proper valuation of the asset.

Audit Procedures:

a. Examine documents evidencing the acquisitions of the assets such as cash vouchers, paid checks, Purchase Orders (PO), Delivery Receipts, Invoices, etc., during the year under examination. For development costs, trace the costs capitalized to source documents.

b. Verify propriety of changes to the asset account.

c. Ascertain the consistency in the application of the company's capitalization and depreciation policy.

d. Test check the computation of depreciation expenses during the year under examination.

Admissibility:
Except for IT Equipment, property and equipment are non-admitted assets. Property and equipment includes the following:

a. Leasehold Improvements
b. Transportation Equipment
c. Office Furniture, Fixtures and Equipment
d. Property and Equipment under Finance Lease
e. Revaluation Increment
f. Accumulated Impairment Losses

Valuation:
The assets shall be valued at net book value or acquisition cost plus incidental cost and/or development costs, as applicable, less allowance for depreciation or amortized cost for leasehold improvement, software and/or development cost.

Applicable Provision of the Amended Insurance Code and Circular Letters:
CL 2014-17, CL 2014-18
B.2.5 Property and Equipment – Land and Building

Audit Objectives:

To prove existence and ownership of real estate property and to establish proper valuation thereof.

Audit Procedures:

A. Prove Existence
   a. Conduct physical count. Refer to the guidelines on Physical Inventory.

   b. In case of additions or capital improvements, verify all related supporting documents.

B. Ownership
   a. If acquired by purchase, check original purchase contract or deed of sale, evidence of payments, Transfer Certificates of Title (TCT), Condominiums Certificate of Title (CCT). Verify Certificate Authorizing Registration (CAR) or application with the Register of Deeds in the absence of the TCT or CCT.

   b. If acquired through foreclosures or in satisfaction of a mortgage debt, examine records and documents and verify if foreclosures have been consummated.

Admissibility:

a. If acquired through purchase for office use – no limit.

b. If acquired for housing projects- no prior approval from Insurance Commission but subject to 25% of the total admitted assets as of December 31st preceding date of such investment.

c. If acquired for investment purposes-25% of admitted assets

d. If acquired through foreclosure the admitted amount is up to the extent of the loan balance at date of foreclosure.

Valuation:

a. Real estate shall be valued at net book value or Insurance Commission accepted appraised value.

b. Net book value shall refer to cost including capitalized and incidental costs, less allowance for depreciation.
c. Capitalized cost shall be limited to:

  c.1. Construction cost  
  c.2. Demolition cost  
  c.3. Air-conditioning and generator set as approved by the commission (if attached to the building)  
  c.4. Generator set as approved by the Insurance Commission  
  c.5. Borrowing cost relating to construction  
  c.6. All other cost approved by Insurance Commission.

Applicable Provision of the Amended Insurance Code and Circular Letters:

Section 200 (1);(2)(a)  
Section 202(a);(b)  
Section 204  
Section 208 (4)  
CL 2014-17  
CL 2016-16
B.2.6 Mortgage and Collateral Loans

Audit Objectives:

To prove existence of loan granted, accuracy of loan balance and corresponding interest thereon and to determine the propriety of loans and sufficiency of collateral. This account may take the form of the following:

1. Real Estate Mortgage (REM)
2. Syndicated Loans
3. Mortgage Trust Indentures/Joint Venture

Audit Procedures:

A. Prove Existence
   Conduct physical count. Refer to the guidelines on Physical Inventory.

B. Prove accuracy of the loan balance and interest thereon

   1. Analyze the account

   2. Reconcile unpaid principal balance and interest shown in the balance sheet and schedule in the Annual Statement (A/S) with the general and subsidiary ledgers.

   3. Reconcile current schedule and Balance Sheet Account with the A/S last examined.

C. Determine sufficiency of the real estate collateral

   Examine the latest appraisal report on the property mortgaged or other independent proof of market value of the property.

Admissibility:

These investments do not require the approval of the Insurance Commissioner, provided that the amounts shall not be in excess of the conditions/limitations and other fundamental requirements set forth under paragraph 2 (a) (b) (c) and paragraph 3 (1-2) of Section 204 of the Amended Insurance Code.
Valuation:

a. Loan value should not be more than 70% appraised/market value of commercial/industrial/residential properties; and not more than 40% of market value of agricultural properties in case of real estate mortgage loans.

b. Loan value should not be more than the following in case of collateral loans:
   
   b.1. 70% of market value of equipment
   
   b.2. 50% of market value of allowable stocks

Applicable Provision of the Amended Insurance Code and Circular Letters:

CL 2014-17
CL 2014-22
B.2.7 Security Fund

Audit Objectives:
To check the existence and accuracy of the balance per company.

Audit Procedures:
Verify the amount per company against balance per Investment Service Division (ISD).

Admissibility:
Based on ISD record and monitoring

Valuation:
Principal amount based on ISD record.

Applicable Provision of the Amended Insurance Code and Circular Letters:
Section 378

B.2.8 Guaranteed Loans

Audit Objectives:
To check the existence and accuracy of the balance per company.

Audit Procedures:
  a. Check approval from ISD on granting loans to borrowers.
  b. Examine and analyze the existence of the loan agreement

Admissibility:
Based on ISD approved amount.

Valuation:
Original amount extended less payments made.

Applicable Provision of the Amended Insurance Code and Circular Letters:
CL 2016-65
B.2.9 Other Loans

Audit Objectives:

To prove existence of loan granted, to check accuracy of loan balances, allowable limits and interests thereon and to determine propriety of loans.

1. Car loans/lease-purchase plans for officers, employees and sales associates subject to a maximum availment per borrower;

2. Financial assistance/emergency loans to officers, employees and sales associates;

3. Loans to officers, employees and sales associates for the purchase of computers and office equipment, secured by chattel mortgage over such equipment; and

4. Salary loans up to a maximum of six (6) month salary

Audit Procedures:

A. Prove Existence

Conduct physical count. Refer to the guidelines on Physical Inventory.

B. Prove Ownership

Ensure that all documents pertaining to the loan are executed in favor of the company.

Admissibility:

a. The benefits should be under a written employee benefit programs/sales associates benefit programs duly approved by the Board of Directors and copy furnished the Insurance Commission.

b. The loans should be adequately documented as to assignments of cars and/or other benefits;

c. The loans should be repaid regularly under the terms and conditions of such loans and are not in default;

d. The aggregate amount of these loans should not exceed six percent (6%) of the net worth of the company as shown in its latest audited financial statement; and

e. These shall be considered surplus investment.
Valuation:

Amount of the loan shall not exceed the ceiling specified in the written benefit programs duly approved by the Board of Directors and furnished the Insurance Commission, and the 6% of net worth in the aggregate limitation. Any excess shall be considered as non-admitted assets.

Applicable Provision of the Amended Insurance Code and Circular Letters:

CL 2014-20
B.2.10 Due from Ceding Companies

Audit Objectives:

a. To determine that the recorded receivable represents valid amounts due to the company and no material receivables were unrecorded at balance sheet date.

b. To determine if reinsurance transactions are valid, properly computed and recorded.

Audit Procedures:

a. Obtain Schedules of Due from ceding companies as of year-end.

b. Check footings of the schedule and compare totals with the balances in the General Ledger.

c. Trace balances of selected accounts per schedule to the Subsidiary Ledger and Statement of Account. Cross refer to the figures reported in the Annual Statement of the corresponding reinsurers. Any material differences should be reconciled by the company.

d. Check if unauthorized foreign reinsurer has resident agent with the Licensing Division or Reinsurance Division.

e. Verify the confirmed statement of account from the reinsurers.

f. Treaty Reinsurance

   e.1. Obtain treaty agreements to confirm company's share and if it is with prior approval by Insurance Commission.

   e.2. Test vouch selected entries in the Subsidiary Ledger to the statements of account received from ceding companies or settlements to the official receipts and supporting documents.

Admissibility:

Receivables net of liabilities from companies under cases and desist order (CDO) receivership or liquidation are considered non-admitted assets.

Valuation:

Due from ceding companies shall be valued at the actual balance that may be established by the above mentioned procedures.

Applicable Provision of the Amended Insurance Code and Circular Letters:

Section 196, Section 216
B.2.11 Receivable from Life Insurance Pools

Audit Objectives:
To establish accuracy and validity of the account.

Audit Procedures:
Check certification from life insurance pools which serve as contingency reserve (i.e.) contributions to Home Development Mutual Fund- Yearly Renewable Term (HDMF-YRT) pool, PAG-IBIG MRI pool, CARP, etc.

Admissibility:
Based on certification.

Valuation:
This account shall be measured at amortized cost, which is generally equivalent to its face amount.

Applicable provision of the Amended Insurance Code and Circular Letters:
B.2.12 Reinsurance Recoverable on Paid Losses

Audit Objectives:
To establish accuracy and validity of recoverable on paid losses.

Audit Procedures:
- Obtain schedule of recoverable on paid losses. Foot schedule.
- Trace to Subsidiary Ledger amounts appearing in schedule.
- Obtain Statement of Account of companies with material balances
- Examine documents of major item in the Statement of Account and Claims file.

Admissibility:
Recoveries net of liabilities from companies under CDO receivership and liquidation are considered non-admitted assets.

Valuation:
Actual Reinsurers' share of cash settlement made by the company.

Applicable provisions of the Amended Insurance Code and Circular Letters:
- Section 196
- Section 216
B.2.13 Reinsurance Recoverable on Unpaid Losses

Audit Objectives:
To establish validity of reinsurance recoverable

Audit Procedures:

a. Obtain and examine reinsurance documents (i.e. binders and treaty contracts)

b. Test/Check accuracy and validity in computing reinsurer’s share.

c. Obtain Statement of Account of companies with material balances

d. Examine documents of major item in the Statement of Account and Claims file.

Admissibility:

Recoverable net of liabilities from reinsurers which are under CDO receivership or liquidation are considered non-admitted assets.

Valuation:

Actual Reinsurers' share on outstanding losses.

Applicable provisions of the Amended Insurance Code and Circular Letter:
Section 196
Section 216
B.2.14 Policy Loans

Audit Objectives:

a. To establish consistency between the policy loans schedule, the Books and its supporting records.

b. To establish the accuracy of the aggregate policy loans amount.

Audit Procedures:

a. Establish Consistency between the Policy Loans schedule and the supporting records.

b. Determine the population size of the policy loans account. The examination procedure may be based on a random sample or the entire population of the account depending on its size.

c. Determine the accuracy of information reflected in the schedule. The policy loans schedule shall contain at least the following information:

   c.1. Policy Number
   c.2. Issue Date
   c.3. Issue Age
   c.4. Plan of Insurance
   c.5. Face amount of Insurance
   c.6 Unpaid Loan Balance as of Valuation Date
   c.7. Interest (Advance/ Due and Accrued)
   c.8 Cash Value

d. Reconcile the policy loans with supporting records:

   d.1. Trace the policy to the valuation or in-force file to determine if the policy is in-force.

   d.2. Trace the loan amount to the loan documents/records. If the loan is an automatic premium loan (APL), check the policy application or policy contract to ensure that APL provision is operative.

   d.3. Compare the outstanding loan balance to the record of the Cash Surrender Value (CSV) to verify collateral.

e. Establish consistency between the policy loan schedule and the Books.
e.1. Reconcile the total outstanding policy loan balance reflected in the schedule with that in the Books and the Annual Statement and the actuary's Statement of Opinion.

e.2. Check if the actuary's Statement of Opinion regarding the policy loans account is in accordance with the IC CL of January 14, 1987.

f. Establish the Accuracy of the Aggregate Policy Loan Amount.

g. Verify the accuracy of the outstanding balances:

   g.1. Select a sample loan payments from the cash receipt book.

   g.2. Verify if repayments had been properly recorded/applied in the corresponding policy loan records.

   g.3. Verify the balance reflected in the schedule if repayments had been considered in determining the outstanding balances as of financial statement date.

h. Recompute policy loans in accordance with company's method. Compare the same with outstanding loan balance in the schedule.

Admissibility:

a. Status of policies with loan which are not included in the reserves valuation shall be determined and corresponding action would be taken (i.e. Set corresponding reserve for in-force policies of non-admit the outstanding loan balance if policy is considered lapsed).

b. The excess of the loan balance over the CSV is a non-admitted asset.

c. Loan balance over the corresponding reserve set is considered as non-admitted asset. Write-off corresponding reserves.

d. Any discrepancies between the aggregate policy loan amount in the schedule and the supporting records are either considered non-admitted or non-ledger asset.

Applicable provision of the Amended Insurance Code and Circular Letters:

Section 196 (4)

Section 198

Section 227 (g)

CL dated 01-14-87
B.2.15 Net Premiums Due and Uncollected

Audit Objectives:

To establish the accuracy of the net premiums due and uncollected and the aggregate amount.

Audit Procedures:

a. Determine the population size of the net premiums due and uncollected account. The examination procedures may be based on a random sample or the entire population of the account depending on its size.

b. Determine the accuracy of information reflected in the schedule. It shall include for each policy at least the following information:
   b.1. Policy Number
   b.2. Plan of Insurance
   b.3. Amount of Insurance
   b.4. Issue Age
   b.5. Issue Date
   b.6. Mode of Premium Payment
   b.7. Net Premium Due and Uncollected

c. Trace the policies from the schedule of net premiums due and uncollected to the enforce file used for reserves valuation or valuation file.

d. Select from the Cash Receipts Book a sample of premium payments made prior to the balance sheet date. Verify if these premiums do not appear anymore on the schedule of net premiums due and uncollected.

e. Select from the Cash Receipts Book a sample of premium payments made after the balance sheet date but which were due on or before the balance sheet date. Verify if these premiums appear on the schedule of net premiums due and uncollected.

f. Check if net premiums due and uncollected are correctly calculated in the schedule.
   f.1. Recalculate the net premium due and uncollected.
   f.2. Compare the recalculated net premiums due and uncollected with those appearing in the schedule.

g. Trace the aggregate amount of net premiums due and uncollected to the Annual Statement/books.
Admissibility:

a. All premiums due and uncollected at the end of the year are brought into the balance sheet as assets on a net premium basis.

b. Premiums included in the schedule shall be considered non-admitted asset if premium payments have been made prior to the balance sheet date.

c. Premiums not included in the schedule shall be considered non-ledger asset if premium payments which pertain to the premiums due on or before the balance sheet date were made after the balance sheet date.

d. Any difference between the amounts of recalculated net premiums due and uncollected and those reflected in the schedule shall be considered as either non-admitted asset or non-ledger asset as the case may be.

e. Premiums that remain unpaid beyond the allowable period per IC CL No.11/91 dated May 28,1991 shall be considered non-admitted asset.

f. Premiums due and uncollected on policies not included in the reserves valuation shall be considered non-admitted asset. However, if these policies are found to be inforce, the corresponding reserves shall be set up

Applicable provisions of the Amended Insurance Code and Circular Letters:
Section 196 (5)
CL dated 01/14/87
CL dated 05/28/91
B.2.16 Net Deferred Premiums

Audit Objectives:
To establish the accuracy of the net deferred premiums and the aggregate amount.

Audit Procedures:

a. Determine the population size of the net deferred premiums account. The examination procedures may be based on a random sample or the entire population of the account depending on its size.

b. Determine the accuracy of information reflected in the schedule. It shall include
for each policy at least the following information:
   b.1. Policy Number
   b.2. Plan of Insurance
   b.3. Amount of Insurance
   b.4. Issue Age
   b.5. Issue Date
   b.6 Mode of Premium Payment
   b.7 Net Deferred Premiums

c. Trace the policies from the schedule of net deferred premiums to the enforce file
used for reserve valuation or valuation file.

d. Verify that net deferred premiums reflected in the schedule are correctly computed.
   d.1. Recalculate the net deferred premiums on the schedule.
   d.2. Compare the recalculated net deferred premiums with those appearing
   in the schedule.

e. Trace the aggregate amount of net deferred premiums from the schedule to the
Annual Statement/Books.

Admissibility:

Any adjustment to be made on this account shall be reflected in the Legal Policy
Reserves account.

Applicable Provision of the Amended Insurance Code and Circular Letters:
CL dated 1/4/87
B.3 Liabilities

B.3.1 Premiums due to Reinsurers

Audit Objectives:

a. To determine the recorded payables representing valid amounts due to reinsurers and no material reinsurance transactions were unrecorded at the balance sheet date.

b. To determine that reinsurance transaction during the period are valid transactions, properly computed and recorded.

Audit Procedures:

a. Obtain schedules of Due to Reinsurers as of year-end.

b. Check footing of the schedules and compare totals with General Ledger balances.

c. Trace balance of selected accounts per schedule to the Subsidiary Ledger and Statement of Accounts. Cross refer to the figures reported in the Annual Statement of the corresponding reinsurers. Any material differences should be reconciled by the company.

d. Facultative Reinsurance

d.1. Trace selected entries in the Subsidiary Ledger to premium register.

d.2. Test/vouch said selected entries to the Statement of Accounts, binders or check vouchers.

e. Treaty Reinsurance

e.1. Obtain treaty agreements and test check accuracy of reinsurer’s share.

e.2. Trace selected entries in the Subsidiary Ledger to the premium register.

e.3. Test/vouch said selected entries to the statement of account or check vouchers.

Valuation:

Based on actual amount of liability.

Applicable Provisions of the Amended Insurance Code and Insurance Commission Circular Letter:

Section 221  Section 223  Section 225
Section 222  Section 224
B.3.2 Taxes Payable

Audit Objectives:
To verify the validity and adequacy of tax liabilities.

Audit Procedures:

a. Determine the tax base. Multiply it by the applicable rate to arrive at the tax due for the year.

b. Add the tax due for the year to the beginning balance of taxes payable.

c. Deduct payments and any compromise tax settlement made during the year to arrive at next taxes payables as at end of the year.

d. Compare figure with the reported balance balance in the Annual Statement. Any material differences should be explained and adjusted accordingly.

e. Request for certification issued by the BIR Large Taxpayers Services Collection Enforcement Division to prove that the company has no delinquent account/obligation.

Valuation:

Valuation of tax liabilities should be in accordance with the provisions, revenue regulations of BIR and other related rulings of the local government as a result of the examination.

Applicable Provisions of the Amended Insurance Code and Insurance Commission Circular Letter:

Section 220

CL dated July 29, 1981 (unnumbered)-on FST
CL-3-90 dated 02/19/90 (Value Added Tax)
CL-7-93 dated 03/10/93 (Premium Tax)
RA 7660 dated 01/13/94 (Documentary Stamp Tax)
B.3.3 Accrued Expense and Other Liabilities

Audit Objectives:
To determine validity and adequacy of the liabilities recorded.

Audit Procedures:

a. Obtain schedule/details of accrued expenses and other payables.

b. For dividends payable, verify declaration of cash dividends against minutes of meeting and board resolution.

c. For notes payable, verify if the liability and collateral have been properly approved by the Board of Directors. Examine board resolution and collateral offered, if any.

Valuation:

Accrued expenses and other liabilities shall be valued at amount that maybe established by the above mentioned procedures.

Applicable Provisions of the Amended Insurance Code and Insurance Commission Circular Letter:

Section 220
B.3.4 Aggregate Reserve for Life Policies and Contracts

Audit Objectives:

To establish the completeness of the in-force or valuation file and the accuracy of the policy reserves and the aggregate amount.

Audit Procedures:

a. Establish the completeness of in force or valuation file.

   a.1. Draw a random sample from the master policy file using a sampling method. The listing of selected policies shall include for each policy at least the following information:

      a.1.1 Policy number
      a.1.2 Plan of Insurance
      a.1.3 Amount of Insurance
      a.1.4 Issue Age
      a.1.5 Issue Date
      a.1.6 Status of the Policy
      a.1.7 Valuation Code/ Basis

   a.2 Trace all active policies in the sample to the sample valuation file or in-force file used for reserves valuation. If the policies in the valuation file are sorted or grouped according to say, issue year, plan, and issue age, the examiner shall request the company to provide the listing of individual policies comprising the policy cells or groups to which the selected active policies belong. The listing shall include at least the following:

      a.2.1. Policy Number
      a.2.2. Plan of Insurance
      a.2.3. Amount of Insurance
      a.2.4. Issue Age
      a.2.5. Issue Date
      a.2.6. Status of the Policy
      a.2.7. Valuation Code/ Basis

Any in-force policy in the sample that is not included in the valuation or in-force file is considered an error in the company’s procedures in the reserves valuation.
b. Establish the accuracy of reserve and the aggregate amount

b.1 Calculate the reserves of the active policies in the sample in accordance with the reserve basis (mortality, interest and valuation method) approved by the Insurance Commission, plan of insurance, amount of insurance, issue year and issue age.

b.2 Compare the calculated reserves with those in the valuation file.

b.3 Trace the aggregate amount of the reserves from the valuation file to the Annual Statements/Books.

b.4 Verify that the reinsurance reserves reductions are not included in the valuation file.

b.5 Trace the reinsurance reserve reductions to the Annual Statement

Admissibility:

a. Reserves shall be set-up for any in-force policies not included in reserves valuation.

b. Adjustments in the Deferred Premium accounts, if any, shall be effected under this account.

Applicable Provisions of the Amended Insurance Code and Insurance Commission Circular Letter:

Section 216, 217 and 220  
CL dated 01/14/87
B.3.5 Policy Contracts and Claims

Audit Objectives:

To establish the completeness/ accuracy of the schedules or reported outstanding claims (includes due and unpaid, in course of settlement and resisted) and the adequacy of the IBNR claims.

Audit Procedures:

a. Determine the accuracy of the information reflected in the schedule. It shall include for each reported outstanding claim at least the following:

   a.1. Claim Number
   a.2. Policy Number
   a.3. Insured/Claimant
   a.4. Plan
   a.5. Date Claim is Received or Filed
   a.6. Date of Loss (e.g. Death/Maturity)
   a.7. Amount of Claim/Insurance
   a.8. Amount Paid
   a.9. Date Paid

b. Verify that the schedule includes all reported outstanding claims and that claimants are being treated fairly.

   b.1 Trace the unpaid claims from the claims register to the schedule.

   b.2 Scan the schedule and verify that the length of time required to settle claims is reasonable and fair.

   b.3 Examine the listing of resisted claims and claims closed without payment.

      b.3.1 Trace a sample of closed payment claims to closed claims files and applications.

      b.3.2 Verify the grounds for resisting claims by examining application and claims files.

   b.4 Select a sample of claims payment from the claims register and/or closed claims files and trace the amount to cash disbursement book and cancelled checks.
c. Verify that the amount set up for reported claims is sufficient.
   
   c.1 Trace a sample of unpaid claims from the schedule to the application and claim files and verify that they are sufficient to cover the face amount and other contract liabilities.
   
   c.2 Trace the total reported claims from the schedule to the Annual Statement.
   
   d. Establish the adequacy of the IBNR claims.
   
   d.1 Obtain certification of the company’s actuary on IBNR claims and the basis/method of the computation thereof.
   
   d.2 Evaluate/determine the adequacy of the IBNR amount. The examiner may estimate it on the basis of the company’s past experience and/or actual claims less reserves set up on these claims and reinsurance recoverable, if any. These actual claims are those reported during the first quarter immediately following the balance sheet date, whether paid or unpaid, but wherein the date of loss occurred on or before the balance sheet date.
   
   d.3 Trace the IBNR amount from the certification of the company’s actuary to the Annual Statement.
   
   Admissibility:
   
   a. The liability for policy and contract claims is derived at the end of each year by subtracting the amount recoverable on unpaid losses for reinsurance ceded on reported claims from the sum of all claim amounts due and unpaid, in course of settlement, resisted and incurred but not reported.
   
   b. All outstanding unpaid claims as of year-end not included in the schedule of claims shall be set up as non-ledger liability under the Policy and Contract Claims account.
   
   Applicable Provisions of the Amended Insurance Code and Insurance Commission Circular Letter:
   
   Section 247-251
   CL dated 6/6/83
   CL dated 1/14/87
B.3.6 Policy Dividends Liabilities

Audit objective:

To ensure that liabilities arising from the declaration of dividends are accurately set up in the period under audit.

Audit procedures:

a. Determine if the company has participating policies that give rise to dividend liabilities.

b. Familiarize with the company’s dividend payment period and the dividend options made available to the policyholders.

c. Familiarize with the company’s internal procedures in ensuring that:
   
   c.1 The dividends and the interest rates are duly authorized.
   
   c.2 Dividends are declared at the appropriate period provided in the contract.
   
   c.3 Dividends and interest on dividend accumulations are duly recorded in each individual policy-owner dividend file.
   
   c.4 Dividend options elected by the policy-owner are duly effected and recorded at the appropriate time.

d. Substantive Testing

The nature and degree of substantive testing are dependent on:

a. The adequacy of internal control

b. The number of participating policies

c. Whether the company maintains manual or computerized Dividends files and if computerized, the degree of sophistication of the computer system.

For fully computerized systems, an EDP audit has to be conducted to assess the integrity of the data and processes in the system. With the exception of the Work Forward Analysis, the procedures outlined below are applicable to manual systems.

a. Perform a work-forward analysis of each dividend payable account. Tie-up balances and intervening transactions with related general accounts of records.

b. Obtain a detailed supporting schedule of each dividend payable account

c. Foot and tie-up balance with the trial balance
d. Perform a detailed review of the individual Dividend Records to determine accuracy, validity and timeliness of recording:

d.1 Trace the liability balance per Dividend Record to the related schedule mentioned in (B).

d.2 Trace and compute authorized dividend and interest rate declarations to the Dividend Record.

d.3 Borrow the policy folder and trace dividends transactions (e.g. withdrawals, exercise of options) to the Dividend Record.

d.4 Check mathematical accuracy to total shown on the Dividend Record.
B.4 Networth

Audit Objectives:
To prove the existence and accuracy of the Networth accounts.

Audit procedures:

a. Capital Stock
   a.1 Obtain current list of stockholders with their respective number of subscription and paid-up capital.
   a.2 Trace to the stock and transfer book and verify/examine movements in stockholders' accounts.
   a.3 Test examine certificate stubs.

b. Contributed surplus
   b.1 Obtain current list of Stockholders with their respective amounts of contributed surplus.
   b.2 For any increase/decrease in contributed surplus, verify supporting documents. Any supporting documents should be reconciled.

c. Contingency surplus
   c.1 Compare the balances to prior year balances.
   c.2 Check the journal vouchers if there is a movement of balances.
   c.3 Verify if the increase pertains to adjustment made to cover up the deficiency/impairment of networth requirement.
   c.4 Verify if the decrease pertains to withdrawal/reclassification to other accounts with prior approval of the Insurance Commissioner.

d. Reserve accounts and Reserve for Appraisal Increments-Property and Equipment
   d.1 Obtain current stock market quotation; appraisal report for real estate; BSP quotation for foreign currency valuation.
   d.2 Test check computation and tie-up balance per schedule with balance per books.
e. Networth

Check company's compliance with Section 194 of the Amended Insurance Code which provides that a domestic insurance company already doing business in the Philippines shall have a net worth of:

<table>
<thead>
<tr>
<th>Date</th>
<th>Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of December 31</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>550,000,000.00</td>
</tr>
<tr>
<td>2019</td>
<td>900,000,000.00</td>
</tr>
<tr>
<td>2022</td>
<td>1,300,000,000.00</td>
</tr>
</tbody>
</table>

Valuation:

a. For Capital Stock and Contributed Surplus- actual amount

b. For Special Surplus Funds-Market Value/ Appraised Value

Applicable Provision of the Amended Insurance Code and Circular Letters:

Section 194
Section 197
CL 2015-02-A
Submitted by:

(Retired)
ALMA R. HERNANDEZ
IC Insurance Specialist II

EMMANUEL M. DELA PENA
IC Insurance Specialist II

RUTH D. PAGUIA
IC Insurance Specialist II

(Handwritten):
ALIDA R. ESPINAS
IC Senior Insurance Specialist

(Handwritten):
BRYAN HOWELL Y. ZAPANTA
IC Senior Insurance Specialist

(Retired)
MA. ASUNCION V. WONG
IC Senior Insurance Specialist

(Handwritten):
ROSAEIO L. BUNAGAN
IC Senior Insurance Specialist

(Retired)
AILLENA A. LAMZON
IC Supervising Insurance Specialist

AMOR G. FAT
IC Insurance Specialist II

PRISCILLA NORITA D. ARROJO
IC Insurance Specialist II

(Handwritten):
SHIRLEY S. SANCHEZ
IC Insurance Specialist II

(Handwritten):
ALLAN M. ABELLA
IC Senior Insurance Specialist

(Handwritten):
LORENA C. BARRERA
IC Senior Insurance Specialist

(Retired)
PAQUITO M. MALABANAN
IC Senior Insurance Specialist

(Handwritten):
ALBERTA R. TURCO
IC Supervising Insurance Specialist

(Handwritten):
MURIEL A. BACOLOD
IC Supervising Insurance Specialist
Reviewed by:

[Signature]

CARLO F. GARCIA
Officer-In-Charge

Recommended by:

[Signature]

FERDINAND GEORGE A. FLORENDO
Deputy Insurance Commissioner
Financial Examination Group

Approved by:

[Signature]

ATTY. DENNIS B. FUNA
Insurance Commissioner