



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

Head Office:  
P. O. Box 3589 Manila  
FAX No. 522-14-34  
Tel. Nos. 523-84-61 to 70  
E-mail: oic@i-manila.com.ph

IMC No.:	11-2006
Date:	December 8, 2006

## INSURANCE MEMORANDUM CIRCULAR

**TO :** ALL MUTUAL BENEFIT ASSOCIATIONS

**SUBJECT :** ADOPTION OF RISK-BASED CAPITAL FRAMEWORK FOR THE PHILIPPINE MUTUAL BENEFIT ASSOCIATIONS

To establish the required amounts of members' equity to be maintained by mutual benefit associations (MBAs) in relation to their investment and insurance risks, the Insurance Commission, after consultation with the MBAs hereby approves the adoption of the Risk-Based Capital (RBC) Framework and issues the following rules and regulations pursuant to the powers vested in me by the provisions of Section 414 of the Insurance Code.

### I. RBC Ratio and Members' Equity

The investments and insurance risks of the MBA shall be classified under four (4) major categories.

- A. Asset Default Risk, denoted by C-1;
- B. Insurance Pricing Risk, denoted by C-2;
- C. Interest Rate Risk, denoted by C-3; and
- D. General Business Risk, denoted by C-4.

The RBC requirement is given by the formula :

$$\text{RBC Requirement} = \sqrt{(C1 + C3)^2 + C2^2} + C4$$

The RBC ratio of the MBA shall be calculated as Members' Equity divided by the RBC requirement as determined in accordance with RBC Exhibit Instructions and Disclosures (See Annex A).

"Members' Equity" is defined as Admitted Assets minus All Liabilities inclusive of Actuarial Reserves and other obligations under the policies and membership certificates.

Every MBA is annually required to maintain a minimum RBC ratio of 100% and not fail the Trend Test as stated in (II.A.2.) below.



*Julinghai Cuatrecasas Insular*



## II. Levels of Regulatory Intervention

The following levels of regulatory intervention then follow based on this ratio:

RBC Ratio = Y	Event	Description
$100\% \leq Y < 125\%$	Trend Test	Linear extrapolation if next year's ratio $< 100\%$ . If so, move to MBA Action Event
$75\% \leq Y < 100\%$	MBA Action	Submit RBC plan and financial projections. MBA implements the plan.
$50\% \leq Y < 75\%$	Regulatory Action	IC authorized to examine the MBA and issue Corrective Orders.
$35\% \leq Y < 50\%$	Authorized Control	IC authorized to take control of the MBA.
$Y < 35\%$	Mandatory Control	IC required to take control of the MBA.

**A. MBA Action Event** shall refer to any of the following events:

1. The RBC ratio of the MBA is less than 100% but not below 75%, or
2. The Trend Test has failed, which shall occur in the event that:
  - a. The RBC ratio is less than 125% but is not below 100%,
  - b. The RBC ratio has decreased over the past year, and
  - c. The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

**A.1.** In the event of the MBA Action Event, the MBA shall file to the Commissioner within forty-five (45) days of the event a RBC plan that shall:

- a. Identify the conditions that contributed to the event;
- b. Contain proposals of corrective action that the MBA intends to take and that would be expected to result in the elimination of the event;
- c. Provide projections of the MBA's Annual Statements for at least two (2) years with and without the proposed corrective actions; including but not limited to projections on the balance sheets, analysis of operations (total), surplus accounts, RBC Exhibits and lines of business information relevant to the RBC plan;
- d. Identify the key assumptions impacting the MBA's projections and the sensitivity of the projections to the assumptions; and
- e. Identify the quality of, and problems associated with, the MBA's business, including but not limited to its assets, anticipated business growth, surplus strain, extraordinary exposure to risk, mix of business and use of reinsurance, if any, in each case.

The Commissioner shall notify the MBA within sixty (60) days upon submission of the RBC plan whether it shall be implemented or is unsatisfactory. In the latter case the Commission shall include reasons for the determination and proposed revisions to the RBC plan, and the MBA shall resubmit the RBC plan within thirty (30) days of notice.

**B. Regulatory Action Event** shall refer to any of the following events:

1. The RBC ratio of the MBA is less than 75% but not below 50%; or
2. The MBA fails to submit a RBC plan satisfactory to the Commissioner, if any, within the filing deadline; or

*Juliana Creston Powell*

3. The Commissioner notifies the MBA of its failure to adhere to its RBC plan, and wherein the failure shall adversely affect the MBA's ability to eliminate the MBA Action Event in accordance to its RBC plan.

**B.1.** In the event of a Regulatory Action Event, the Commissioner is authorized to

- a. Require the MBA to submit a RBC plan within forty-five (45) days of the event;
- b. Perform such examination or analysis, as deemed necessary, of the MBA's accounts, operations and RBC plan; and
- c. Subsequent to the examination or analysis, issue a Corrective Order specifying corrective actions the MBA is required to undertake.

The Commissioner may retain actuaries and other consultants as necessary to review the MBA's accounts, operations and RBC plan and to formulate the necessary corrective orders, the fees and costs of which shall be borne by the affected MBA.

**C. Authorized Control Event** shall refer to any of the following events:

1. The RBC ratio of the MBA is less than 50% but not below 35%; or
2. The Commissioner notifies the MBA of its failure to satisfactorily respond to a Corrective Order as stated in (B.1.c.).

In the event of an Authorized Control Event, the Commissioner is authorized to place the MBA under regulatory control under Sec. 247 of the Insurance Code, should the Commissioner deem it to be in the best interests of the MBA's members and creditors and of the general public. The Authorized Control Event shall be deemed sufficient grounds for the Commissioner to take action under Sec. 247 of the Insurance Code.

**D. Mandatory Control Event** shall occur if the RBC ratio of the MBA is less than 35%. Should this event occur, the Commissioner is required to place the MBA under regulatory control under Sec. 247 of the Insurance Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Sec. 247 of the Insurance Code.

### **III. Submission of RBC Exhibits and Items**

Every MBA shall annually accomplish and file the relevant RBC Exhibits and Items that shall form part of the Annual Statements in accordance with the instructions provided.

### **IV. Confidentiality**

With the exception of the RBC Exhibits that shall form part of the Annual Statements, all other disclosures and RBC Plans filed with the Commissioner shall be kept confidential in the same manner as the Annual Statement Schedules and other confidential reports required by the Commission.

*Juengelné Custodio Recalib*



**V. Compliance with the Guaranty Fund, Reserves Liability and RBC Requirements**

The MBA shall, in addition to the Guaranty Fund required under Insurance Memorandum Circular Nos. 2-2006 or 9-2006 and Reserves Liability required under Section 397 of the Insurance Code, comply with the RBC requirement.

**VI. The RBC Framework shall be subject to review at least once every three (3) years.**

The Insurance Commission may issue such other guidelines as it deems necessary to enforce the provisions of this Circular. Non-compliance with this Circular and any additional guidelines shall result in the revocation of the MBA's certificate of authority.

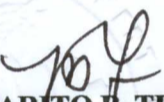
This Insurance Memorandum Circular shall take effect immediately.

Signed on December 8, 2006.

  
**EVANGELINE CRISOSTOMO-ESCOBILLO**  
Insurance Commissioner

0005640

Approved:

  
**MARGARITO B. TEVES**  
Secretary  
Department of Finance

**RISK BASED CAPITAL (RBC) EXHIBIT INSTRUCTIONS AND DISCLOSURES****MBA****Exhibit I: Aggregate RBC Calculations**

	RBC Requirement
(1) C-1: Asset Default Risk	
(2) C-2: Insurance Pricing Risk	
(3) C-3: Interest Rate Risk	
(4) C-4: General Business Risk	
(5) Sum of C-1 to C-4 requirements	
(6) Aggregate RBC requirement: $\sqrt{((1)+(3))^2 + (2)^2} + (4)$	
(7) Member's Equity	
(8) RBC Ratio: (7) / (6)	
(9) RBC Ratio, previous year	

1. Exhibit I outlines the calculation of aggregate RBC and the RBC ratio. Calculations of RBC requirements for C-1, C-2, C-3 and C-4 are found in Exhibits II to V. In general, items (1) to (4) above are calculated as various percentages of exposures to risk. Aggregate RBC requirement, (6), is then calculated inclusive of a covariance adjustment as follows:

$$RBC = \sqrt{(C1 + C3)^2 + C2^2} + C4$$

From this, RBC Ratio is equal to Members' Equity divided by Aggregate RBC requirement. "Members' Equity" shall be equal to Admitted Assets minus All Liabilities inclusive of Actuarial Reserves and other obligations under the policies and membership certificates duly examined by the Insurance Commission.

**Exhibit II: C-1 Requirements**

2. In general, C-1 requirements are calculated by multiplying the RBC factor with the corresponding net admitted asset value.

**Fixed Income Securities: Bonds, Treasury Bills and Short Term Investments**

	RBC Factor
1. Bonds, Treasury Bills	
1.1. Government, local currency	0%
1.2. Government, foreign currency	1.6%
1.3. Investment Grade	1.6%
1.4. Below Investment Grade	10%
1.5. Near default	30%
2. Short -term investments	

*Surongelini Cuatoma Escobedo*



2.1. Government, local currency	0%
2.2. Government, foreign currency	1.6%
2.3. Investment Grade	1.6%
2.4. Below Investment Grade	10%
2.5. Near default	30%

3. Items 1.1, 1.2, 2.1 and 2.2 shall cover fixed income securities issued by the Philippine government, the Bangko Sentral ng Pilipinas (BSP), OECD governments and OECD central banks.

All other fixed income securities shall initially be under item 1.4 or item 2.4, Below Investment Grade, until otherwise classified as Investment Grade or Near Default.

4. The following fixed income securities shall be classified under item 1.3 or item 2.3, Investment Grade:
- a. Securities issued by multilateral development banks recognized by the BSP.<sup>1</sup>
  - b. Securities rated Baa3 or better (or its equivalent; see below) or better by a rating agency recognized by the Commission. All publicly available ratings for the security shall be utilized. When two or more ratings differ the second best rating shall be utilized.

Rating Agency	Bond	Short-term
Moody's	Baa3 or better	P3 or better
Standard and Poor's	BBB- or better	A3 or better
Fitch	BBB- or better	F3 or better
A M Best	Bbb-/B+ or better	AMB-3 or better
PhilRatings	PRS Baa or better	PRS 3 or better

5. Fixed income securities issued by a corporation or government agency for which no ratings are available may also be classified under item 1.3 or item 2.3, Investment Grade, based on the yield spread of the quoted market value of the issuer's securities in a fixed income exchange, using the instructions below.

Market data presented as evidence for each issuer shall include the closing price of all its securities for the period stated below, the corresponding yield to maturity, yields of risk-free Treasury bonds of equivalent maturity, and the difference between issuer and Treasury yields (the yield spread), and calculations, if applicable.

Corporate and government agency issuers whose securities in a particular currency all have yield spreads (after striking out the highest spread) not exceeding 250 basis points based on closing price from 16 to 31 December shall be deemed Investment Grade. In the absence of such, market data from 1 to 15 December shall be utilized; yet in its absence, bid rates for the security from 1 to 31 December shall be utilized. Should none of these be available, all of the issuer's securities shall be deemed as Below Investment Grade.

6. A security shall be classified under item 1.5 or item 2.5, Near Default, in the event of;
- a. An actual default by the issuer, or
  - b. A rating below B (or its equivalent; see below) by at least one recognized rating agency.

<sup>1</sup> These include, among others: International Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, African Development Bank, European Investment Bank and European Bank for Reconstruction and Development.

*Juanito Crantomo Escalante*

Rating Agency	Bond	Short-Term
Moody's	Worse than B3	N/A
Standard and Poor's	Worse than B-	C or worse
Fitch	Worse than B-	C or worse
A M Best	Worse than B-	D
PhilRatings	Worse than PRS B	Worse than PRS 5

#### Stocks and Real Estate

	RBC Factor
3. Stocks	
3.1. Common Stocks	30%
3.2. Preferred Stocks	
3.2.1. Traded and Rated	15%
3.2.2. Non-traded or Non-rated	30%
4 Real estate (net of encumbrances)	
4.1. Company-occupied, up to quota	8%
4.2. Company-occupied, above quota	15%
4.3. Acquired in satisfaction of debt/foreclosed	30%
4.4. Investments in real estate	15%

7. The issuing company of preferred stocks can be classified as Rated if its rating is two (2) notches higher than the country rating.
8. MBA-occupied real estate shall be declared under item 4.1 up to a quota equal to the greater of: (a) 250 square meters or (b) 10 square meters per employee or officer counted on page 1 of the Annual Statement. The balance shall be declared under item 4.2.

#### Mortgage and Policy Loans

	RBC Factor
5. Mortgage loans and purchase money mortgages	
5.1 In good standing	10%
5.2. Others	30%
6. Policy loans/Membership Certificate Loans	0%

9. Mortgage loans and purchase money mortgages classified under item 5.1, In Good Standing, shall include loans for residential purpose, fully secured by first mortgage on residential property to be occupied or leased out by the borrower, that are not overdue for more than 90 days. All other mortgage loans shall be classified under item 5.2.

#### Cash on hand and in banks

	RBC factor
6. Cash and Bank Deposits	
6.1. Cash on hand	20%
6.2. Deposits in banks and trusts	0.3%
6.3. Others (not in good standing)	20%

*Jorge Luis Arriola Encalada*



10. Item 6.2 shall include demand deposits, certificates of deposit and money market placements with banks, quasi-banks and trust companies. It shall initially be deemed under item 6.2 unless the solvency status of the relevant institution or instrument is found by the Commissioner to be unsatisfactory, in which it shall be declared under 6.3, Not in Good Standing.

**Exhibit III: Foreign Currency Exposure, including Gold (XAU):**

Currency - ISO Code	PHP per Unit	Admitted assets	Liabilities	Net Position (3)-(4)	RBC Factor
(1)	(2)	(3)	(4)	(5)	(6)
1. PHP	1.00				0%
2. USD, (5) ≥ 0					0%
3. USD, if (5) < 0					10%
4. EUR					10%
5. JPY					10%
6. XAU					10%
7.1. AAA					10%
7.2. BBB					10%
10. Total	- x -	0	0	- x -	- x -

11. RBC requirements are calculated in Exhibit III and carried into Exhibit II. With the exception of PHP and net long positions in USD, the RBC factor for each distinct currency shall be 10% of the absolute value of the net position initially calculated in the foreign currency and reported in PHP under columns (3) and (4).

“Net position” means the aggregate value of admitted assets less liabilities denominated in each currency.

**Counterparty Factors**

	RBC factor
7. Collateral, Guaranteed and Other Loans	
7.1. Of best security	0%
7.2. Adequately secured	10%
7.3. Others	30%

12. All other claims and receivables shall be assigned RBC factors based on the nature of the counterparty guaranteeing or collateralizing the obligation.

Claims subject to counterparty factors shall include

- a. Collateral, guaranteed and other loans
- b. Amounts due and recoverable from authorized life insurance companies, and authorized reinsurance companies

There are three counterparty RBC factors to be adopted:

- a. 0% for counterparty, collateral or guarantee of best security
- b. 10% for counterparty, collateral or guarantee of adequate security
- c. 30% for all others.

*Juan Miguel Cruzado Ruiz*



13. Claims from authorized life and reinsurance companies shall initially be assigned a 10% factor (or 0% upon providing collateral of best security) or unless the solvency or security status of these claims is deemed by the Commission to be unsatisfactory<sup>2</sup> (30% factor).

**0% factor – Of Best Security for:**

- a. Claims guaranteed by or collateralized by securities issued by the Philippine government, the BSP, and central governments and central banks of foreign countries with the highest credit quality *as per Subsec. X116.3 of BSP Circular 280.*
- b. Loans or acceptances under letters of credit to the extent covered by margin deposits

**10% factor – Adequately Secured for:**

- a. Claims guaranteed by or collateralized by securities issued by non-central government public sector entities of foreign countries with the highest credit quality *as per Subsec. X116.3*
- b. Claims guaranteed by Philippine banks, Philippine quasi-banks, and Foreign banks with the highest credit quality *as per Subsec. X116.3*
- c. Claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks *as per Subsec. X116.3*

**30% factor** is assigned to all other claims from non-insurance institutions.

**Other Miscellaneous Assets**

	RBC factor
8 Guaranty fund	0 %
9. Fees/Dues Receivable	8%
10. Life insurance premiums and annuity consideration due and uncollected	8%
11. Accident and health premiums due and Uncollected	8%
12. Electronic data processing machines	
12.1 Hardware	20%
12.2 Software	10%
13. Accrued Interest *	
13.1. Overdue investment income	20%
13.2. AAA	
14. Other Investments	20%
14.1. AAA	
14.2. BBB	
15. Other assets (give items and amounts)	20%
15.1. AAA	
15.2. BBB	

<sup>2</sup> For instance, if the relevant institution submits RBC results triggering the Authorized Control Event as defined in the IMC on RBC.

*Junglini Cruzadora Lucido*

\* *Accrued Interest shall assume the RBC factors of the assets where they originate (Bond, Mortgage Loan, etc.) on the condition that these are not overdue. In all other cases a 20% factor is applied.*

Fees/Dues Receivables and Due and Uncollected Premiums in items 9, 10 and 11 are understood to be those due within the grace period or within the allowed payment period.

Any tax credits shall be classified under Other Assets and have 0% RBC factor if the same are certified by the BIR Commissioner.

In general, all other admitted assets and investments not easily classified above shall initially be assigned a 20% RBC factor until the Insurance Commissioner classifies the asset into either (a) an existing category, (b) a new category with its own RBC treatment or (c) a non-admitted asset.

**Exhibit IV, Part 1: C-2 Requirements**

PART 1: C-2 Contingency	Exposure measure	Exposure, gross of reinsurance	Exposure, net of reinsurance	RBC Factor	RBC Requirement
(1)	(2)	(3)	(4)	(5)	(6) = (4)x(5)
1. Individual Life, non-par	NAR*			0.10%	
2. Individual Life, par or adjustable premium	NAR*			0.08%	
3. Group Life	NAR*			0.08%	
4. Life Annuity	Reserve			1.00%	
5. Disability – active	Premium			25.00%	
6. Disability – disabled	Reserve			10.00%	
7. Accident	Premium			20.00%	
8. Health	Premium			25.00%	
9. Accident and Health	Premium			20.00%	
10. Critical Illness	Premium			25.00%	
11. Claim Reserves	p.3, item 4			5.00%	
12. Other risks	Premium			25.00%	
12.1. AAA	Premium			25.00%	
12.2. BBB	Premium			25.00%	
13. Total C-2 Requirement	- x -	- x -	- x -	- x -	

\* *NAR stands for net amounts at risk, or death benefits minus policy reserves.*

14. Each contingency and risk exposure is itemized in (1) and (2). Enter the desired exposure measure amounts in (3) and (4) gross and net of reinsurance, respectively, from authorized life insurance companies and reinsurance companies.

By default, all other risks itemized in 12 shall be presumed to have an RBC requirement equal to 25% of premiums earned, unless the Commissioner determines another risk measure.

*Jonathan Antonio Revilla*



**Exhibit IV, Part 2: C-4 Requirements.**

PART 2: C-4 Exposure Measure	Exposure, gross of reinsurance	Exposure, net of reinsurance	RBC Factor	RBC Requirement
(1)	(2)	(3)	(4)	(5) = (3)x(4)
14. Total Premiums and contributions collected			0.50%	
16. Total Admitted Assets	- x -		0.25%	
17. Total C-4 Requirement	- x -	- x -	- x -	

**Exhibit V: C-3 Requirements**

Valuation Standard	Valuation Interest	Currency - ISO Code	C-3 Category	Reserves, gross of reinsurance	Reserves, net of reinsurance	Current Interest	Valuation spread	RBC factor	RBC Requirement
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10) = (6)x(9)
1980 CSO CRVM	6.00%	PHP	L2		1,000		2.50%	0.0%	
1980 CSO CRVM	6.00%	USD	E1		500		-1.50%	6.0%	
Group UPR	6.00%	PHP	S		1,000		2.50%	0.0%	
Claims Reserves	- x -	- x -	- x -				- x -	0.0%	
TOTAL	- x -	- x -	- x -		2,500		- x -	- x -	

15. C-3 requirements are determined as percentages of all policy reserves subject to liability valuation under Section 210 of the Insurance Code. RBC factors depend on two variables: the liability's C-3 category and the valuation spread (both discussed below). The "spread" component of C-3 serves to compensate for the conservatism in the valuation of policy reserves.

Add back reserve deficiencies or unearned premium reserves, and deduct deferred premiums to the liability entries in (5) and (6). Liabilities shall be reported gross and net of Authorized Reinsurers only, to the extent that asset receivables representing such amounts are not reported in page 2 of the Annual Statement.

The following table should provide further guidance in the assignment of RBC factors.

Reference Table for RBC Factors and Current Interest Rates  
RBC Factors by Valuation Spread and C-3 Category (Zero for "S" liabilities)  
C-3 Category

Valuation Spread, rounded down 0.5%	E1	E2	L1	L2
2% or above	0.00%	0.0%	0.0%	0.0%
1.50%	0.00%	2.2%	0.0%	0.0%
1.00%	0.00%	5.9%	0.0%	2.2%
0.50%	2.20%	6.0%	1.7%	5.3%
0.00%	4.50%	6.0%	3.4%	6.0%
-0.50%	6.00%	6.0%	5.1%	6.0%
-1% or below	6.00%	6.0%	6.0%	6.0%

*Junaghai Arindan-Quid*

Current Interest Rates for the year, as declared by the Commission:  
L1, E1 rates based on 5-year Treasuries while L2, E2 based on 10-year Treasuries.

Currency - ISO Code	E1	E2	L1	L2
PHP	8.24%	8.72%	8.24%	8.72%
USD	4.07%	4.16%	4.07%	4.16%

### C-3 classification rules

- a. All liabilities shall be classified into five categories based on the type of plan / liability and the Guaranteed Duration (GD):
- i. S: Short term deposits and unearned premium reserves with  $GD \leq 1$  year
  - ii. L1: Whole Life, Term and Insurance plans with  $1 \text{ year} < GD \leq 10$  years.
  - iii. L2: Whole Life, Term and Insurance plans with  $GD > 10$  years.
  - iv. E1: Endowment Plans, Annuities, Deposits with  $1 \text{ year} < GD \leq 10$  years.
  - v. E2: Endowment Plans, Annuities, Deposits with  $GD > 10$  years.

- b. **Guaranteed duration** shall be defined as the remaining number of years in which a plan is entitled to remain in-force or entitled to renewability under guaranteed premiums (or zero premiums), cost of insurance (COI) charges or credited interest.

Term and endowment plans of remaining term not exceeding ten years with or without guaranteed renewable options shall qualify under L1 or E1 only if no premium, COI or interest rates are guaranteed upon renewal. Universal life insurance shall be categorized on the basis of the term in which future COI or interest rates are guaranteed.

- c. **C-3 classification guidelines**, provided for avoidance of doubt:

- i. "S" shall include group Unearned Premium Reserves, Premium Deposit Funds, Dividend Accumulations and Adjustable Premium Policies where premium rates, cost of insurance charges and credit interest are all not contractually guaranteed beyond one year.
- ii. "L1, L2" shall include whole life, term, protection-only plans (like disability, accident, etc.), universal life insurance where premiums, COI charges or credited interest is guaranteed beyond one year.
- iii. "E1, E2" shall include all endowment plans, supplementary contracts, annuities and deposits that guarantee premiums, COI charges or credited interest beyond one year.
- iv. Non-guaranteed policy dividends are not counted as "endowments".
- v. Riders shall be unbundled from the base contracts prior to classification.
- vi. Products with anticipated endowments shall be allowed to remain under L1 or L2 as long as the following conditions are met:
  - Each endowment shall not exceed 20% of the smaller of current death benefit or average death benefit at any time before age 95;
  - Total endowments paid from policy issue shall not exceed 4% of total death benefits provided;
  - "Averages" and "totals" as used here are reckoned on a plan anniversary basis from the year of plan issue.

*Guenglar Arinoban Jundel*



A whole life plan with level 1000 death benefit can therefore pay a maximum anticipated endowment of 40 a year, or 200 every five years, without being classified under E1 or E2.

16. **RBC factors:** "S" liabilities shall have 0% factor. All other liabilities shall be assigned factors based on C-3 classification and valuation spread (see Exhibit V). This table was developed from a model of liability cash flows with corresponding assumptions as to interest rate shock and the duration of assets matching liabilities.

**Valuation Spread** is defined as the **Current Rate** minus the valuation rate of the liability, rounded down 0.50%. **Current Rates** shall be announced by the Commissioner before 15 January every year and shall be based on applicable Philippine, USA or foreign treasury bond yields as of 31 December of the previous year, net of taxes.

- a. Five-year yields are used for L1 and E1, ten-year yields for L2 and E2.
- b. For PHP liabilities, Current Rate is 80% of MART1 yields, 5-year and 10-year tenors, as published in [www.mart.com.ph](http://www.mart.com.ph);
- c. For USD liabilities, use 92.5% of 5-year and 10-year US Treasury yields.

Results are presented in Exhibit V as follows:

Currency - ISO Code	E1	E2	L1	L2
PHP: 80% of MART1	5-year yield	10-year yield	5-year yield	10-year yield
USD: 92.5% of Treasuries	5-year yield	10-year yield	5-year yield	10-year yield

**17. Other Disclosures**

The five-year historical data shall show Exhibit I items (6) and (8), aggregate RBC requirement and RBC ratio, respectively.

The Annual Statement Schedules shall contain an additional column with the heading *C-1 class*, with entry in the format [##.#], [brief description], as per Exhibit II. For example: 1.3, *Investment Grade*; or 3.1, *Common Stocks*.

Schedules on Bonds and Short-Term Instruments shall contain a second additional column with the heading *Investment Grade Evidence*. Investment grade securities are required to enter in the column either the security's second best rating or the issuer's second worst yield spread.

*Juan Miguel Cruzon Escobedo*