ANNEX B – UPDATED FINANCIAL REPORTING FRAMEWORK (“FRF”)

This Annex sets out the updated FRF of all insurance and professional reinsurance companies to be used for purposes of creating the financial reports and the annual statements to be submitted to the IC to incorporate the impact or application of the new accounting standard, PFRS 17 *Insurance Contracts*.

1. **Assets (Title III)**

1.1. Section 202

In any determination of the financial condition of any insurance company doing business in the Philippines, there shall be allowed and admitted as assets only such assets legally or beneficially owned by the insurance company concerned as determined by the Commissioner which consist of:

a) Cash in the possession of the insurance company or in transit under its control, and the true and duly verified balance of any deposit of such company in a financially sound bank or trust company duly authorized by the Bangko Sentral ng Pilipinas.

A discussion of the various types of cash accounts and their corresponding descriptions and accounting treatment can be found in ANNEX B.1 and B.2, "Manual of Accounts" paragraph 1.

b) Investments in securities, including money market instruments, and in real property acquired or held in accordance with and subject to the applicable provisions of this Code and the income realized therefrom or accrued thereon.

For investments in securities, including money market instruments, these can be classified in any of the following:

i. Financial assets at fair value through profit or loss
ii. Financial assets at fair value through other comprehensive income
iii. Investments at amortized cost

A more detailed description of each of the classifications and their accounting treatment can be found in ANNEX B.1 and B.2, "Manual of Accounts" paragraphs 4 to 6.

For real properties, these can be classified in any of the following depending on management's purpose for holding such property:

i. Property and equipment
ii. Investment property
iii. Non-current assets held for sale/for distribution to owners

A more detailed description of each of the classifications and their accounting treatment can be found in ANNEX B.1 and B.2, "Manual of Accounts" paragraphs 12, 13 and 15 and 11, 13 to 14, respectively.

c) Loans granted by the insurance company concerned to the extent of that portion thereof adequately secured by non-speculative assets with readily realizable values in accordance with and subject to the limitations imposed by applicable provisions of this Code.

A more detailed description of the different types of loans and their accounting treatment is discussed in ANNEX B.1 and B.2, “Manual of Accounts” paragraph 7.

d) Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company, in an amount not exceeding legal reserves and other policy liabilities carried on each individual life insurance policy, contract or certificate.

   Such policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company shall form part of the Insurance Contract Asset or Insurance Contract Liability and to be included in the disclosure requirements pursuant to the ANNEX A of the CL.

e) The net amount of uncollected and deferred premiums and annuity considerations in the case of a life insurance company which carries the full mean tabular reserve liability.

   Such net amount of uncollected and deferred premiums and annuity considerations of a life insurance company shall form part of the Insurance Contract Asset or Insurance Contract Liability and to be included in the disclosure requirements pursuant to the ANNEX A of the CL.

f) Reinsurance recoverable by the ceding insurer:

   i. From an insurer authorized to transact business in this country, the full amount thereof; or

   ii. From an insurer not authorized in this country, in an amount not exceeding the liabilities carried by the ceding insurer for amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder if such funds are held subject to withdrawal by, and under the control of, the ceding insurer. The Commissioner may prescribe the conditions under which a ceding insurer may be allowed credit, as an asset or as a deduction from loss and unearned premium reserves, for reinsurance recoverable from an insurer not authorized in this country but which presents satisfactory evidence that it meets the applicable standards of solvency required in this country.

   Such reinsurance recoverable by the ceding insurer shall form part of the Reinsurance Contract Asset or Reinsurance Contract Liability and to be included in the disclosure requirements pursuant to the ANNEX A of the CL.

g) Funds withheld by a ceding insurer under a reinsurance treaty, provided reserves for unpaid losses and unearned premiums are adequately provided.

Such funds withheld by a ceding insurer shall form part of the Reinsurance Contract Asset or Reinsurance Contract Liability and to be included in the disclosure requirements pursuant to the ANNEX A of the CL.

h) Deposits or amounts recoverable from underwriting associations, syndicates and reinsurance funds, or from any suspended banking institution, to the extent deemed by the Commissioner to be available for the payment of losses and claims and values to be determined by him.

Such accounts shall form part of the Reinsurance Contract Asset or Reinsurance Contract Liability and to be included in the disclosure requirements pursuant to ANNEX A of the CL.

i) Electronic data processing machines, as may be authorized by the Commissioner to be acquired by the insurance company concerned, the acquisition cost of which to be amortized in equal annual amounts within a period of five (5) years from the date of acquisition thereof.

Such electronic data processing machines shall be accounted for in accordance with ANNEX B.1 and B.2, "Manual of Accounts" paragraphs 12.4 and 12.4.1, and 11.4 and 11.4.1, respectively.

j) Investments in mutual funds, real estate investment trusts (REIT), salary loans, unit investment trust funds and special deposit accounts, subject to the conditions as may be provided for by the Commissioner.

Such investments shall be accounted for in accordance with ANNEX B.1 and B.2, "Manual of Accounts."

For investments in mutual funds, REIT, and unit investment trust funds, these shall be classified and measured depending on their nature and management's classification in accordance with Appendices A and B, "Manual of Accounts," as follows:

i. Financial assets at fair value through profit or loss (paragraph 4 of ANNEX B.1 and B.2, respectively)
ii. Financial assets at fair value through other comprehensive income (paragraph 5 of ANNEX B.1 and B.2, respectively)

For salary loans these can be classified and measured as "Loans and Receivables" (paragraphs 7.11 and 7.10 of ANNEX B.1 and B.2, respectively).

For special deposit accounts, these shall be classified depending on the term and nature of the account as follows:

i. Cash in bank (paragraph 1.2 of ANNEX B.1 and B.2)
ii. Time deposits (paragraph 1.4.1 of ANNEX B.1 and B.2)

k) Other assets, not inconsistent with the provisions of paragraphs (a) to (j) hereof, which are deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him in a circular, rule or regulation.

Such other assets, to the extent admissible shall be measured at cost.

Pursuant to the provisions this section, such assets shall be subject to the requirements of Sections 204 to 212 of the Amended Insurance Code for admissibility.

1.2. Section 203 (Non-admitted Assets)

In addition to such assets as the Commissioner may from time to time determine to be non-admitted assets of insurance companies doing business in the Philippines, the following assets shall in no case be allowed as admitted assets of an insurance company doing business in the Philippines, in any determination of its financial condition:

i. Goodwill, trade names, and other like intangible assets;
ii. Prepaid or deferred charges for expenses and commissions paid by such insurance company;
iii. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security;
iv. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit;
v. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies;
vi. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement;
vii. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction.

Pursuant to the provisions of Section 203, non-admitted assets shall be recognized and measured in accordance with accounting principles generally accepted in the Philippines.

2. Investments (Title IV)

2.1. Section 204

A life insurance company may lend to any of its policyholders upon security of the value of its policy such sum as may be determined pursuant to the provisions of the policy.

No insurance company shall be allowed to loan any of its money or deposits to any person, corporation or association except upon the security of certain assets subject to certain conditions as provided in this section.

Pursuant to the provisions of this section, loans and receivables account in ANNEX B.1 and B.2, "Manual of Accounts" paragraph 7, shall comply with the requirements of Section 204.

2.2. Section 205

No loan by any insurance company on the security of real estate shall be made unless the title to such real estate shall have first been registered in accordance with the existing Land Registration Act or shall have been previously registered under the provisions of the existing Mortgage Law and the lien or interest of the insurance company as mortgagee has been registered.

Pursuant to the provisions of this section, loans and receivables account in ANNEX B.1 and B.2, "Manual of Accounts" paragraphs 7.1 and 7.2, respectively, shall comply with the requirements of Section 205.

2.3. Section 206

a) An insurance company may purchase, hold, own and convey such property, real and personal, as may have been mortgaged, pledged, or conveyed to it in good faith in trust for its benefit by reason of money loaned by it in pursuance of the regular business of the company, and such 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.

b) An insurance company may purchase, hold, and own assets other than those mentioned in Section 2.3. (a) and (c) subject to the condition of Section 206 (b) 1 to 11.

c) 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.

Pursuant to the provisions of this section, all accounts affected by Section 206 as described in ANNEX B.1 and B.2, "Manual of Accounts" shall comply with the requirements of Section 206.

2.4. Section 207

An insurance company may:

a) Invest in equities of other financial institutions; and

b) Engage in the buying and selling of long-term debt instruments: Provided, that any or all of such investments shall be with the prior approval of the Commissioner. Insurance companies may, however, invest in listed equities of other financial institutions without need of prior approval by the Commissioner.

2.5. Section 208

Any 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 to this paragraph (b), shall not exceed twenty-five percent (25%) of its admitted assets as of the thirty-first day of December next preceding.

Pursuant to the provisions of this section, real estate inventories and investment properties in paragraph 13 of ANNEX B.1 and ANNEX B.2, “Manual of Accounts” shall comply with the requirements of Section 208.

2.6. Section 209

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, 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: *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 shall, so far as practicable, apply to the securities deposited under this section.

Except as otherwise provided in the Code, no judgment creditor or other claimant shall have the right to levy upon any of the securities of the insurer held on deposit under this section or held on deposit pursuant to the requirement of the Commissioner.

Pursuant to the provisions of Section 209, all accounts affected by Section 209 as described in ANNEX B.1 and ANNEX B.2, “Manual of Accounts” shall comply with the requirements of Section 209.

2.7. Section 210

After satisfying the requirements contained in the preceding section (Sections 204 to 209, except Section 208), any domestic non-life insurance company, shall invest, to an amount prescribed below, its funds in, or otherwise, acquire or loan upon, only the classes of investments described in Section 206, 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:

a) 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; and

b) The total investment of an insurance company in any registered enterprise shall not exceed twenty percent (20%) of the net worth of said insurance company as shown by its aforesaid financial statement nor twenty percent (20%) of the paid-up capital of the registered enterprise excluding the intended investment, unless previously authorized by the Commissioner: Provided, further, that such investments, free from any lien or encumbrance, shall be at least equal in amount to the aggregate amount of: (1) its legal reserve, as provided in Section 219, and (2) its reserve fund held for reinsurance as provided for in the pertinent treaty provision in the case of reinsurance ceded to authorized insurers.

Pursuant to the provisions of this Section 210, all accounts affected by Section 210 as described in ANNEX B.1 and ANNEX B.2, “Manual of Accounts” shall comply with the requirements of Section.

2.8. Section 211

After satisfying the requirements contained in Sections 197, 199, 209 and 210 of the Amended Insurance Code, any non-life insurance company may invest any portion of its funds representing earned surplus in any of the investments described in Sections 204, 206 and 207, or in any securities issued by a registered enterprise mentioned in the preceding sections: *Provided*, that no investment in stocks or bonds of any single entity shall in the aggregate, exceed twenty percent (20%) of the net worth of the insurance company as shown in its latest financial statement approved by the Commissioner or twenty percent (20%) of the paid-up capital of the issuing company, whichever is lesser, unless otherwise approved by the Commissioner.

Pursuant to the provisions of this section, all investments in stocks and bonds as described in ANNEX B.2, “Manual of Accounts” paragraph 4 to 6, shall comply with the requirements of this section.

2.9. Section 212

After satisfying the minimum capital investment required in Section 209, any life insurance company may invest its legal policy reserve, as provided in Section 217 or in Section 218 of the Amended Insurance Code, in any of the classes of securities or types of investments described in Sections 204, 206, 207 and 208 of the Amended Insurance Code, subject to the limitations therein contained, and in any securities issued by any registered enterprise mentioned in Section 210 of the Amended Insurance Code, free from any lien or encumbrance, in such amounts as may be approved by the Commissioner. Such company may likewise invest any portion of its earned surplus in the aforesaid securities or investments subject to the aforesaid limitations.

Pursuant to the provisions of this section, all accounts affected by Section 212 as described in ANNEX B.1 and ANNEX B.2, “Manual of Accounts” shall comply with the requirements of this section.

2.10. Section 213

Any investment made in violation of the applicable provisions of this title shall be considered non-admitted assets.

Pursuant to the provisions of this section, all accounts affected by Section 213 as described in ANNEX B.1 and ANNEX B.2, “Manual of Accounts” shall comply with the requirements of this section.

2.11. Section 214

a) All bonds or other instruments of indebtedness having a fixed term and rate of interest and held by any life insurance company authorized to do business in this country, if amply secured and if not in default as to principal or interest, shall be valued based on their amortized cost using effective interest method less impairment and unrecoverable amount based on appropriate measurement methods which are generally accepted in the industry and accepted by the Commissioner. The Commissioner shall have the power to determine the eligibility of any such investments for valuation on the basis of amortization, and may by regulation prescribe or limit the classes of securities so eligible for amortization. All bonds or other instruments of indebtedness which in the judgment of the Commissioner are not amply secured shall not be eligible for amortization and shall be valued in accordance with paragraph two. The Commissioner may, if he finds that the interest of policyholders so permit or require, by official regulation permit or require any class or classes of insurers, other than life insurance companies authorized to do business in this country, to value their bonds or other instruments of indebtedness in accordance with the foregoing rule.

b) The investments of all insurers authorized to do business in this country, except securities subject to amortization and except as otherwise provided in this chapter, shall be valued, in the discretion of the Commissioner, at their amortized cost using effective interest method less impairment and unrecoverable amount or at valuation representing their fair market value. If the Commissioner finds that in view of the character of investments of any insurer authorized to do business in this country it would be prudent for such insurer to establish a special reserve for possible losses or fluctuations in the values of its investments, he may require such insurer to establish such reserve, reasonable in amount, and include a report thereon in any statement or report of the financial condition of such insurer. The Commissioner may, in connection with any examination or required financial statement of an authorized insurer, require such insurer to furnish him complete financial statements and audited report of the financial condition of any corporation of which the securities are owned wholly or partly by such insurer and may cause an examination to be made of any subsidiary or affiliate of such insurer as appropriate to specific investments as provided in appropriate circulars issued by the Commissioner.

Such investments shall be classified depending on the purpose for which the investments were acquired and whether they are quoted in an active market as follows:

i. Financial assets at fair value through profit or loss (paragraph 4 of ANNEX B.1 and ANNEX B.2)
ii. Financial assets at fair value through other comprehensive income (paragraph 5 of ANNEX B.1 and of ANNEX B.2)
iii. Investment securities at Amortized Cost (paragraph 6 of ANNEX B.1 and of ANNEX B.2)

The provisions of Section 214 (a) shall apply if the bonds or other instruments of indebtedness are classified as Investment securities at Amortized Cost.

The provisions of Section 214 (b) shall apply if the investments are classified as either financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income.

c) Investments in equity of an insurance company shall be valued as follows:

i. Listed stocks shall be valued at market value and periodically adjusted to reflect market changes through a special valuation account to reflect their realizable value when sold;

ii. Unlisted stocks shall be valued at adjusted book value based on the latest unqualified audited financial statements of the company which issued such stocks; and

iii. Stocks of a corporation under the control of the insurer shall be valued using the equity method which is the cost plus or minus the share of the controlling company in the earnings or losses of the controlled company after acquisition of such stocks.

Listed and unlisted stocks in which the insurance company has no significant influence or control shall be classified depending on the purpose for which the investments were acquired and whether they are quoted in an active market as follows:

i. Financial assets at fair value through profit or loss (paragraph 4.1.3 of ANNEX B.1 and B.2)
ii. Financial assets at fair value through other comprehensive income (paragraph 5.3 of ANNEX B.1 and B.2)

In relation to section c (i) and (iii), if an insurance company has significant influence or control, such investment investments shall be classified as follows:

i. Investments in subsidiaries (paragraph 10.1 of ANNEX B.1 and B.2)
ii. Investments in associates (paragraph 10.2 of ANNEX B.1 and B.2)
iii. Investments in joint ventures (paragraph 10.3 of ANNEX B.1 and B.2)

d) The stock of an insurance company shall be valued at the lesser of its market value or its book value as shown by its last approved audited financial statement or the last report on examination, whichever is more recent. The book value of a share of common stock of an insurance company shall be ascertained by dividing (1) the amount of its capital and surplus less the value of all of its preferred stock, if any, outstanding, by (2) the number of shares of its common stock issued and outstanding.

Notwithstanding the foregoing provisions, an insurer may, at its option, value its holdings of stock in a subsidiary insurance company in an amount not less than acquisition cost if such acquisition cost is less than the value determined as herein before provided.

Such provision shall apply if an entity chooses the cost model of accounting for such stock of an insurance company.

Pursuant to the provisions of Section 214 (d), such stock of an insurance company shall be subsequently measured in accordance with ANNEX B.1 and B.2, “Manual of Accounts” if an insurance company has significant influence or control as follows:

i. Investments in subsidiaries (paragraph 10.1 of ANNEX B.1 and B.2)
ii. Investments in associate (paragraph 10.2 of ANNEX B.1 and B.2)
iii. Investments in joint ventures (paragraph 10.3 of ANNEX B.1 and B.2)

e) Real estate acquired by foreclosure or by deed in lieu thereof, in the absence of a recent appraisal deemed by the Commissioner to be reliable, shall not be valued at an amount greater than the unpaid principal of the defaulted loan at the date of such foreclosure or deed, together with any taxes and expenses paid or incurred by such insurer at such time in connection with such acquisition, and the cost of additions or improvements thereafter paid by such insurer and any amount or amounts thereafter paid by such insurer or any assessments levied for improvements in connection with the property.

Such measurement principle shall apply only upon initial recognition.
Pursuant to the provisions of Section 214 (e), such real estate acquired by foreclosure shall be subsequently measured in accordance with ANNEX B.1 and B.2, “Manual of Accounts” depending on management’s classification as follows:

i. Property and equipment (paragraphs 12 and 11 of ANNEX B.1 and B.2, respectively)
ii. Investment property (paragraph 13 of ANNEX B.1 and B.2, respectively)

f) Purchase money mortgages received on dispositions of real property held pursuant to Section 208 shall be valued in an amount equivalent to ninety percent (90%) of the value of such real property. Purchase money mortgages received on disposition 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.

The above shall apply only upon initial recognition. Subsequent to initial recognition such purchase money mortgages shall be measured in accordance with ANNEX B.1 and B.2, “Manual of Accounts” paragraphs 7.9 and 7.8, respectively.

g) The stock of a subsidiary of an insurer shall be valued on the basis of the greater of:

i. The value of only such of the assets of such subsidiary as would constitute lawful investments for the insurer if acquired or held directly by the insurer; or

ii. Such other value determined pursuant to standards and cumulative limitations, contained in a regulation to be promulgated by the Commissioner.

Pursuant to the provisions of Section 214 (g), such investment stock of a subsidiary shall be subsequently measured in accordance with ANNEX B.1 and B.2, “Manual of Accounts” paragraphs 10.1.

h) Notwithstanding any provision contained in this section or elsewhere in this chapter, if the Commissioner finds that the interests of policyholders so permit or require, he may permit or require any class or classes of insurers authorized to do business in this country to value their investments or any class or classes thereof as of any date heretofore or hereafter in accordance with any applicable valuation or method.

Pursuant to the provisions of Section 214 (h), the permissible bases of valuation, shall be as provided in ANNEX B.1 and ANNEX B.2, “Manual of Accounts”, subject to the approval of the Insurance Commissioner as follows:

i. Financial Asset at Fair Value Through Profit or Loss (paragraph 4 of ANNEX B.1 and B.2)
ii. Loans and Receivables (paragraph 7 of ANNEX B.1 and B.2)
iii. Investments in Subsidiaries (paragraph 10.1 of ANNEX B.1 and B.2, respectively)

iv. Investments in Associates (paragraph 10.2 of ANNEX B.1 and B.2, respectively)
v. Investment in Joint Ventures (paragraph 10.3 of ANNEX B.1 and B.2, respectively)