



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

Circular Letter (CL) No.:	2015-29
Date:	10 June 2015

CIRCULAR LETTER

TO : ALL LIFE AND NON-LIFE INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : FINANCIAL REPORTING FRAMEWORK UNDER SECTION 189 OF THE AMENDED INSURANCE CODE (REPUBLIC ACT NO. 10607)

WHEREAS, the Amended Insurance Code was passed into law on 15 August 2013 and took effect on 20 September 2013.

WHEREAS, the implementation of the provisions of Section 189 thereof which provides for the financial reporting framework of all insurance and reinsurance companies would need guidance to ensure the transparent and consistent application of accounting principles.

WHEREAS, the financial reporting framework includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles.

WHEREAS, this financial reporting framework is not the same as the financial reporting framework used for general purpose financial statements for the public and filed to other regulators.

WHEREAS, the financial reporting framework will be used on the statutory quarterly and annual reporting for net worth requirements as approved by the Insurance Commission.

NOW, THEREFORE, pursuant to the authority vested in me by the provisions of Chapter II-A of the Amended Insurance Code, and after a series of consultations, dialogues, and discussions conducted and held with the insurance industry associations and other stakeholders, the following rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all the other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies are hereby promulgated:

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 Appendices A and B, "Manual of Accounts" paragraphs 1 to 3.

- 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. Loans and receivables
- iii. Held-to-maturity
- iv. Available-for-sale financial assets

Classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

A more detailed description of each of the classifications and their accounting treatment can be found in Appendices A and B, "Manual of Accounts" paragraphs 8 to 11 and 11 to 14, respectively.

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. Held for Sale

A more detailed description of each of the classifications and their accounting treatment can be found in Appendices A and B, "Manual of Accounts" paragraphs 15 to 17 and 18 to 20, 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 Appendices A and B, "Manual of Accounts" paragraphs 10.1 to 10.15 and 13.1 to 13.13, respectively.

- 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 be accounted for in accordance with Appendix A, "Manual of Accounts" paragraph 10.5.

- 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 be accounted for in accordance with Appendix A, "Manual of Accounts" paragraph 4.

- 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 be accounted for in accordance with Appendices A and B, "Manual of Accounts" paragraph 7.

- 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 be accounted for in accordance with Appendices A and B, "Manual of Accounts", paragraphs 6 and 6 to 7 respectively.

- 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 be accounted for in accordance with Appendices A and B, "Manual of Accounts" depending on the nature and terms of the account.

- 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 Appendices A and B, "Manual of Accounts" paragraphs 15.4 and 15.4a and 18.4 and 18.4a, 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 Appendices A and B, "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 (paragraphs 8 and 11 of Appendices A and B, respectively)
- ii. Available-for-sale financial assets (paragraphs 11 and 14 of Appendices A and B, respectively)

For salary loans these can be classified and measured as "Loans and Receivables" (paragraphs 10 and 13 of Appendices A and B, 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 2 of Appendices A and B)
- ii. Time deposits (paragraph 3 of Appendices A and B)

- 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:

- a) Goodwill, trade names, and other like intangible assets.
- b) Prepaid or deferred charges for expenses and commissions paid by such insurance company.
- c) 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.
- d) 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.
- e) Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
- f) Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
- g) 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 Appendix A, "Manual of Accounts" paragraph 10, 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 Appendices A and B, "Manual of Accounts" paragraphs 10 and 13, 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 Appendices A and B, "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 Appendix A, "Manual of Accounts" paragraph 16 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 Appendices A and B, "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 Appendices A and B, "Manual of Accounts" shall comply with the requirements of this 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 Appendix A, "Manual of Accounts" paragraphs 6, 7 and 9, 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 Appendix A "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 Appendices A and B, "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. Held-to-maturity investments (paragraphs 9.1 and 9.2 and 12.1 and 12.2 of Appendices A and B, respectively)
- ii. Financial assets at fair value through profit or loss (paragraphs 8.1 and 8.2 and 11.1 and 11.2 of Appendices A and B, respectively)
- iii. Available-for-sale financial assets (paragraphs 11.1 and 11.2 and 14.1 and 14.2 of Appendices A and B, respectively)

The provisions of Section 214 (a) shall apply if the bonds or other instruments of indebtedness are classified as held-to-maturity.

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 available-for-sale financial assets.

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 (paragraphs 8.1 and 8.2 and 11.1 and 11.2 of Appendices A and B, respectively)
- ii. Available-for-sale financial assets (paragraphs 11.1 and 11.2 and 14.1 and 14.2 of Appendices A and B, respectively)

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 (paragraphs 14.1 and 17.1 of Appendices A and B, respectively)

- ii. Investments in associates (paragraphs 14.2 and 17.2 of Appendices A and B, respectively)
 - iii. Investments in joint ventures (paragraphs 14.3 and 17.3 of Appendices A and B, respectively)
- 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 hereinbefore provided.

Such provision shall apply if an entity chooses 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 Appendix A, "Manual of Accounts" if an insurance company has significant influence or control as follows:

- i. Investments in subsidiaries (paragraphs 14.1 and 17.1 of Appendices A and B, respectively)
 - ii. Investments in associate (paragraphs 14.2 and 17.2 of Appendices A and B, respectively)
 - iii. Investments in joint ventures (paragraphs 14.3 and 17.3 of Appendices A and B, respectively)
- 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 Appendices A and B "Manual of Accounts" depending on management's classification as follows:

- i. Property and equipment (paragraphs 15 and 18 of Appendices A and B, respectively)
 - ii. Investment property (paragraphs 16 and 19 of Appendices A and B, 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 Appendices A and B, "Manual of Accounts" paragraphs 10.11 and 13.9, 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 Appendices A and B, "Manual of Accounts" paragraphs 14.1 and 17.1, respectively.

- 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 Appendices A and B, "Manual of Accounts", subject to the approval of the Insurance Commissioner as follows:

- i. Financial Asset at Fair Value Through Profit or Loss (paragraphs 8 and 11 of Appendices A and B, respectively)
 - ii. Held-to-maturity Investments (paragraphs 9 and 12 of Appendices A and B, respectively)

- iii. Loans and Receivables (paragraphs 10 and 13 of Appendices A and B, respectively)
- iv. Available-for-sale Financial Assets (paragraphs 11 and 14 of Appendices A and B, respectively)
- v. Investments in Subsidiaries (paragraphs 14.1 and 17.1 of Appendices A and B, respectively)
- vi. Investments in Associates (paragraphs 14.2 and 17.2 of Appendices A and B, respectively)
- vii. Investment in Joint Ventures (paragraphs 14.3 and 17.3 of Appendices A and B, respectively)

3. Manual of Accounts

- 3.1.** Pursuant to the provisions of Section 189 of the Amended Insurance Code, the Commission is issuing the “Manual of Accounts” (see Appendices A and B) to clarify the financial reporting framework to be adopted by life and non-life insurance and professional reinsurance companies in the preparation of their financial statements for submission to the Insurance Commission. The Manual of Accounts include certain admitted assets which are not specifically listed in Section 202 of the Code but are not inconsistent with the provisions of paragraphs (a) to (j) of Section 202 .

Among these accounts are:

- a) Deferred acquisition costs - In relation to Section 219 of the Amended Insurance Code requiring every insurance companies, other than life insurance companies, to use the 24th method in setting up the premium liabilities; and/or
- b) Deferred reinsurance premiums - Due to the recognition of reinsurance liabilities at gross.

4. Translation of Foreign Currency-denominated Transactions

4.1. Initial Recognition

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Spot exchange rate is the exchange rate for immediate delivery.

4.2. Reporting at the Ends of Subsequent Reporting Periods

At the end of each reporting period:

- a) foreign currency monetary items shall be translated using the closing rate;

For purposes of translating monetary items using the closing rates, the following guidelines are hereby promulgated:

- i. U.S. Dollar-denominated - Source of information should be the closing rate published by the Philippine Dealing System.
- ii. Other currencies - Source of information should be the closing rate published by the Bangko Sentral ng Pilipinas.

Closing rate is the spot exchange rate at the end of the reporting period.

- b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

4.3. Recognition of Exchange Differences

- a) Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in profit or loss in the period in which they arise.
- b) When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

5. Transitional Provisions

- 5.1. The financial reporting framework introduced in this Circular, which is not explicitly provided in Republic Act No. 10607, the Amended Insurance Code, shall take effect after a transition period to allow companies to conduct a parallel run to assess the impact of this Circular. This should, therefore, not affect the effectivity of the covered provisions of the Amended Insurance Code, which are deemed to take effect in accordance with Section 448 of the Code.
- 5.2. The details of the transition period and the full implementation of this financial reporting framework is presented in CL No. 2015-31

6. Miscellaneous Provisions

- 6.1.** The issuance of this circular, upon effectivity, supersedes all previously issued circulars that deal with the recognition and measurement of asset and liabilities as set out in Sections 1 to 2 of this Circular.



EMMANUEL F. DOOC
Insurance Commissioner

Appendix A

FINANCIAL REPORTING FRAMEWORK FOR LIFE INSURANCE COMPANIES

MANUAL 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 net premiums due and uncollected at the end of the accounting period on all life policies which are classified as in-force in the company's valuation records. These are net premiums that are due and uncollected within the grace period.

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 impairment loss.

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 impairment loss.

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 reinsurances 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 reinsurances 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 impairment loss.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset at fair value through profit or loss 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:
- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - ii. 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
 - iii. 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 fair value through profit or loss. An entity may use this designation only when permitted, or when doing so results in more relevant information, because either:
- i. 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
 - ii. 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.

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 fair value through profit or loss.

An entity:

- a) shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued;
- b) shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss; and
- c) 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 fair value through profit or loss category if any of the following requirements are met:
 - i. A financial asset to which (c) applies (except a financial asset of the type described in ii) may be reclassified out of the fair value through profit or loss category only in rare circumstances.
 - ii. 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 fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future until maturity.

An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

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

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 (FVPL)* - This represents financial assets which the company, upon initial recognition, has designated at fair value through profit or loss. 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) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- b) 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
- c) it is settled at a future date.

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

- 8.3.1. Foreign exchange contracts - This represents contracts to purchase/sell foreign currencies at a future date at a fixed rate.
- 8.3.2 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.
- 8.3.3 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 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 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

9. HELD-TO-MATURITY (HTM) 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 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 investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- i. 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;
- ii. occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- iii. 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.

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.a. 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.a. 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, 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 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 fair value through profit or loss;
- b) those that the company upon initial recognition designates as available for sale; 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 (AFS) 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 fair value through profit or loss.

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.a. 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.a. 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 other comprehensive income is removed from other comprehensive income 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 other comprehensive income.

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 and Real Estate Investment Trusts

11.6. Others

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.

In relation to the above, Section 209 of the Amended Insurance Code also provides that 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 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under Section 209.

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 (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, 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 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 - Financial Assets at FVPL
 - 12.2.1. Securities Held for Trading
 - 12.2.1.a. Debt Securities - Government
 - 12.2.1.b. Debt Securities - Private
 - 12.2.2. Financial Assets Designated at FVPL
 - 12.2.2.a. Debt Securities - Government
 - 12.2.2.b. Debt Securities - Private
- 12.3. Accrued Interest Income - AFS Financial Assets
 - 12.3.1. AFS Debt Securities - Government
 - 12.3.2. AFS Debt Securities - Private
- 12.4. Accrued Interest Income - HTM Investments
 - 12.4.1. HTM Debt Securities - Government
 - 12.4.2. HTM Debt Securities - Private
- 12.5. Accrued Interest Income - Loans and Receivables

- 12.5.1. Real Estate Mortgage Loans
- 12.5.2. Collateral Loans
- 12.5.3. Guaranteed Loans
- 12.5.4. Chattel Mortgage Loans
- 12.5.5. Notes Receivable
- 12.5.6. Housing Loans
- 12.5.7. Car Loans
- 12.5.8. Low Cost Housing Loans
- 12.5.9. Sales Contract Receivable
- 12.5.10. Unquoted Debt Securities
- 12.5.11. Salary Loans
- 12.5.12. Others
- 12.5.13. Accrued Dividends Receivable
 - 12.5.13.1 FVPL Equity Securities
 - 12.5.13.2 DVPL Equity Securities
 - 12.5.13.3 AFS Equity Securities

These are recognized when earned except for accrued dividends receivable where the asset is recognized when the shareholder'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) / Employees* - This represents advances to insurance agents and salary loans of officers and staff 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 may be 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 other comprehensive income of those investees is presented as part of the company's other comprehensive income. 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. 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 during more than one period.

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

- 15.1. *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.
- 15.2. *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.
 - 15.2.a. *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.
- 15.3. *Leasehold Improvements – At cost* - This represents the cost of additions, improvements and /or 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.
 - 15.3.a. *Accumulated Depreciation - Leasehold Improvements*
- 15.4. *IT Equipment - At cost* - This represents the cost of the information processing systems of the company including the computer hardware, customized software, and peripherals.
 - 15.4.a. *Accumulated Depreciation – IT Equipment*
- 15.5. *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.

15.5.a. Accumulated Depreciation - Transportation Equipment

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

15.6.a. Accumulated Depreciation - Office Furniture, Fixtures and Equipment

15.7. *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.

15.7.a. Accumulated Depreciation

15.7 and 15.7.a shall comprise of the following sub-accounts:

- a) Land;
- b) Buildings and Building Improvements;
- c) Leasehold Improvements;
- d) IT Equipment;
- e) Transportation Equipment; and
- f) Office Furniture, Fixtures and Equipment.

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

15.8.a. Accumulated Depreciation – Revaluation Increment

15.8 and 15.8.a shall comprise of the following accounts:

- a) Land; and
- b) Buildings and Building Improvements.

15.9. *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 other comprehensive income 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 other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease

recognized in other comprehensive income 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, to an amount prescribed below, 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.

16. 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; or
- 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 and other 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.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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:

- Service cost in profit or loss;
- Net interest on the net defined benefit liability or asset in profit or loss; and
- Remeasurements of net defined benefit liability or asset in other comprehensive income.

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 other comprehensive income 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.

22. DERIVATIVE ASSETS HELD FOR HEDGING

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

- a) *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.
- b) *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 in other comprehensive income.
- c) *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 in other comprehensive income.

23. 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

24. AGGREGATE RESERVES FOR LIFE POLICIES

This represents the actuarial reserves set up by the company pertaining to the life policies in force 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.

24.1. 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 new valuation standards for life insurance policy reserves released 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 circular on accounting for valuation of life insurance policy reserves.

25. AGGREGATE RESERVE FOR ACCIDENT AND HEALTH POLICIES

This represents the actuarial reserves 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 new valuation standards for life insurance policy reserves released 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 circular on accounting for valuation of life insurance policy reserves.

26. RESERVE FOR SUPPLEMENTARY CONTRACTS WITHOUT LIFE CONTINGENCIES

This represents the actuarial reserves set 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 new valuation standards for life insurance policy reserves released 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 circular on accounting for valuation of life insurance policy reserves.

27. 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:

27.1. 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.

27.2. 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.

27.3. Claims Restated

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.

27.4. 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.

28. DUE TO REINSURERS

This shall comprise of the following sub-accounts:

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

- 28.2. *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.

29. FUNDS HELD FOR REINSURERS

This shall comprise of the following sub-accounts:

- 29.1. *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.

30. 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.

31. 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 Insurance Commission.

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

32. 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. 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.

38. 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.

39. TAXES PAYABLE

This shall be comprised of the following sub-accounts:

- 39.1. *Premiums Tax Payable* - This represents the unpaid and un-remitted balances of the premium tax liability.
- 39.2. *Documentary Stamps Tax Payable* - This represents documentary stamps not yet affixed as of cut-off date on policies already issued or in force and on original issues of stock certificates.
- 39.3. *Value-added Tax (VAT) Payable* – This represents the tax due on sale of insurance policies and other goods based on cash received, net of input VAT paid by the company in the course of the company's purchases of goods or services.
- 39.4. *Income Tax Payable* - This represents income taxes due and payable to the government net of creditable taxes and/or whatever income tax payments made on a quarterly basis.
- 39.5. *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. These shall be remitted to the Bureau of Internal Revenue on a monthly basis.
- 39.6. *Fire Service Tax Payable* - This represents the unpaid balance of the Fire Service Tax liability.
- 39.7. *Other Taxes & Licenses Payable* - This represents all unpaid taxes and licenses other than income and premium taxes due the government.

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

40. 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:

- 40.1. *SSS Premiums Payable* - This represents to SSS premiums/contributions withheld from the salaries of officers and staff representing employees' contributions to the SSS.

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

- 40.2. SSS Loans Payable - This represents the SSS salary loan amortizations deducted from the salaries of officers and staff with outstanding loan accounts with the SSS.

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

- 40.3. Pag-ibig Premiums Payable - This represents the contributions to the Home Development Mutual Fund (HDMF Pag-ibig) deducted from the salaries of officers and staff and remitted by the company to HDMF every month.

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

- 40.4. Pag-ibig Loans Payable - This represents the Pag-ibig loan amortizations deducted from the salaries of officers and staff with outstanding loan accounts with the Pag-ibig.

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

- 40.5. 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.

41. 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.

42. DIVIDENDS PAYABLE

This represents cash 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.

43. 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.

44. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

44.1 Financial Liabilities Held for Trading - This represents financial liabilities 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.

44.2. Financial Liabilities Designated At Fair Value Through Profit Or Loss - This represents financial liabilities which the company, upon initial recognition, has designated at fair value through profit or loss.

44.3. 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:

- 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.

45. 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.

46. 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.

47. 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 date;
- b) minus the fair value of the plan assets at the reporting date.

48. 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.

49. ASSET RETIREMENT OBLIGATION

This represents the company's obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item for property and equipment during that period.

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

50. 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.

51. 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.

52. 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.

53. 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:

- 53.1. 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.
- 53.2. Accrued Services - This represents accruals for services rendered to the company such as janitorial, security, professional fees and others.
- 53.3. 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.

54. OTHER LIABILITIES

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

- 54.1. Deferred Income - This represents income received during the accounting period but not yet earned for which recognition as income is deferred.
- 54.2. 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.

- 54.3. 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.
- 54.4. Agency Group Tem Plan - This represents the outstanding liability of the company pertaining to the group insurance coverage of members of the agency force.
- 54.5. 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.

55. DERIVATIVE LIABILITIES HELD FOR HEDGING

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

- 55.1. 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.
- 55.2. 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.
- 55.3. 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.

56. 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.

EQUITY 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 account shall be measured at historical cost. This shall be further subdivided as follows:

57.1. *Preferred Stock* - This represents shares which provide the shareholders preference as to dividends and upon liquidation. The features of the preferred shares 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 shares issued should be classified as part of liabilities.

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

58. 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. This account shall be measured at historical cost.

59. CONTRIBUTED SURPLUS / HOME OFFICE INWARD REMITTANCES

This represents original contributions of the shareholders as provided under the Insurance Code. For foreign companies, the equivalent account for Contributed Surplus is Home Office Inward Remittances. This account shall be measured at historical cost.

60. CONTINGENCY SURPLUS

This represents contributions of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon the approval of the Insurance Commission.

61. 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. This account shall be measured at historical cost.

62. RETAINED EARNINGS / HOME OFFICE ACCOUNT

This represents the accumulated earnings of the company reduced by whatever 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.

63. 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.

64. RESERVE ACCOUNTS

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

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

64.3. 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.

64.4. 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. 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.

66. REMEASUREMENT GAINS (LOSSES) ON RETIREMENT PENSION ASSET (OBLIGATION)

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

67. 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

68. 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.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

74. 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.

75. 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.

76. 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 reinsurer.

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

77. 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.

78. 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.

79. 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:

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

79.2. Interest Income - Financial Assets at FVPL

79.2.1. Securities Held for Trading

- 79.2.1.a. Debt Securities - Government
 - 79.2.1.b. Debt Securities - Private
- 79.2.2. Financial Assets Designated at FVPL
 - 79.2.2.a. Debt Securities - Government
 - 79.2.2.b. Debt Securities – Private
- 79.3. Interest Income - Available for Sale Financial Assets
 - 79.3.1. AFS Debt Securities – Government - This account represents interest received and/or accrued arising from investments in government securities (such as Treasury Bills, Treasury Notes, government bonds). These shall be classified into two: Non-taxable (NT) and those subject to Final tax (FT).
 - 79.3.2. 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.
- 79.4. Interest Income - Held-to-Maturity Investments
 - 79.4.1. HTM Debt Securities - Government
 - 79.4.2. HTM Debt Securities - Private
- 79.5. Interest Income - Loans and Receivables
 - 79.5.1. Real Estate Mortgage Loans - This represents interest earned during the period from real estate mortgage loans.
 - 79.5.2. Collateral Loans - This represents interest earned during the period from collateral loans.
 - 79.5.3. Guaranteed Loans - This represents interest earned during the period from guaranteed loans.
 - 79.5.4. 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.
 - 79.5.5. Notes Receivable - This represents interest earned during the period derived from interest bearing promissory notes.
 - 79.5.6. Housing Loans - This represents interest earned during the period derived from housing loans.
 - 79.5.7. Car Loans - This represents interest earned during the period derived from car loans.

- 79.5.8. Low Cost Housing Loans - This represents interest earned during the period arising from low cost housing loans.
- 79.5.9. Sales Contracts Receivables - This represents interest earned on purchase money mortgages.
- 79.5.10 Salary Loans - This represents interest earned on salary loans.
- 79.5.11. Unquoted Debt Securities - This represents interest earned on unquoted debt securities which are classified as loans and receivables.
- 79.5.12. 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.

80. 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 shareholders' right to receive payment is established and shall be measured at fair value of the consideration received or receivable.

81. 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:

- 81.1. Financial Assets and Liabilities Held for Trading
- 81.2. Financial Assets and Liabilities Designated at Fair Value through Profit and Loss
- 81.3. Available for Sale Financial Assets
- 81.4. Investment Property
- 81.5. Others - This represents gains derived from the disposal or sale of assets other than those classified above.

82. GAIN ON SALE OF PROPERTY AND EQUIPMENT

This represents gain realized on sale of property and equipment.

83. 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

84. 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.

85. 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 receivables, 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

86. 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:

86.1. 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.

86.2. 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.

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

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

86.5. 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.

87. 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.

88. 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.

89. INCREASE/DECREASE IN AGGREGATE POLICY RESERVES

This represents the net change in the aggregate policy reserves from the previous reporting period.

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

90. 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.

91. 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.

92. 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:

- 92.1. 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.
- 92.2. 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.
- 92.3. Renewal Commissions - This represents commissions due to agents on renewal premiums collected on due dates.
- 92.4. 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.

93. 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.

94. 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.

95. 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.

96. 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 and any other such legal documents and contracts.

- 96.1. 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.
- 96.2. Documentary Stamps - Group Business - This represents the cost of documentary stamps affixed to group policies issued during the year.
- 96.3. Documentary Stamps - Stocks - This represents the cost of documentary stamps affixed to new or original issues of stocks during the year.
- 96.4. 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.
- 96.5. 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 annual statement 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.

97. 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.

98. 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

99. 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.

100. 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.

101. MEDICARE CONTRIBUTIONS

This represents the company's share in the contribution for the Medicare 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.

102. 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.

103. 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.

104. 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.

105. 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.

106. 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.

107. 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.

108. 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.

109. 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.

110. 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.

111. 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.

112. 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.

113. 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.

114. 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.

115. 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.

116. 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.

117. 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.

118. 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.

119. 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.

120. 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.

121. 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.

122. 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.

123. 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.

124. 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.

125. 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.

126. RENTAL EXPENSE

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

127. 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.

128. 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.

129. 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.

130. 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.

131. 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.

132. 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.

133. 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.

134. 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.

135. 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:

- 135.1. Due from Ceding Companies
- 135.2. Amounts Recoverable from Ceding Companies
- 135.3. AFS Financial Assets
- 135.4. HTM Investments
- 135.5. Loans and Receivables
- 135.6. Accounts Receivables
- 135.7. Property and Equipment

- 135.8. Investment Property
- 135.9. Intangible Assets
- 135.10. Others

136. 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.

137. PROVISION FOR INCOME TAX

- 137.1. 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.
- 137.2. Provision for Income Tax - Current
This represents the corporate income tax of the company for the period based on its taxable income.
- 137.3. 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.

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.

Appendix B

FINANCIAL REPORTING FRAMEWORK FOR NON-LIFE AND PROFESSIONAL REINSURANCE COMPANIES

MANUAL 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. *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 RECEIVABLE

This represents uncollected premiums on direct business including those by general agents and insurance brokers including taxes and other charges, provided these are properly segregated and the corresponding liabilities are set up.

4.1. *Allowance for Impairment Losses* - This represents the amount set up to provide for losses which may arise from non-collection of the premiums receivable.

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

5. DUE FROM CEDING COMPANIES

This shall comprise of the following sub-accounts:

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

5.2. *Premiums 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 impairment loss.

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 impairment loss.

7. LOSS RESERVE WITHHELD BY CEDING COMPANIES

This shall comprise of the following sub-accounts:

- 7.1. *Loss Reserve Withheld by Ceding Companies – Treaty* – This pertains to a portion of the reinsurance premium withheld by ceding companies under treaty agreements as reserve for losses.
- 7.2. *Loss Reserve Withheld by Ceding Companies – Facultative* – This pertains to a portion of reinsurance premiums withheld by the ceding companies under facultative reinsurances as reserve for losses.

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

8. AMOUNTS RECOVERABLE FROM REINSURERS

This shall comprise of the following sub-accounts:

- 8.1. *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.
- 8.2. *Reinsurance Recoverable on Paid Losses – Facultative* – This represents the amount recoverable from reinsurers under facultative reinsurances as their share in paid losses and loss adjustments expenses net of salvage or recoveries.
- 8.3. *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.
- 8.4. *Reinsurance Recoverable on Unpaid Losses – Facultative* – This represents the amount recoverable from reinsurers under facultative reinsurances as their share on unpaid losses and loss adjustment expense net of salvage or recoveries.
- 8.5. *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 impairment loss.

9. OTHER REINSURANCE ACCOUNTS RECEIVABLE

This represents all other reinsurance accounts receivable not classified under any of the foregoing reinsurance accounts receivable.

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

10. SURETY LOSSES RECOVERABLE

This represents the estimated recoveries the company may have from losses on surety policies issued.

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset at fair value through profit or loss 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:
 - i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - ii. 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
 - iii. 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 fair value through profit or loss. An entity may use this designation only when permitted, or when doing so results in more relevant information, because either:
 - i. 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
 - ii. 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.

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 fair value through profit or loss.

An entity:

- a) shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued;
- b) shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss; and
- c) 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 fair value through profit or loss category if any of the following requirements are met:
 - i. A financial asset to which (c) applies (except a financial asset of the type described in ii) may be reclassified out of the fair value through profit or loss category only in rare circumstances.
 - ii. 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 fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future until maturity.

An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

11.1. *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:

11.1.1. *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.

- 11.1.2. *Trading Debt Securities – Private* - This represents debt instruments issued by private corporations, whether domestic or foreign, such as commercial papers, notes and bonds.
 - 11.1.3 *Trading Equity Securities* - This represents common and preferred shares of stock of companies other than those of subsidiaries, associates and joint ventures.
 - 11.1.4. *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
- 11.2. *Financial Assets Designated at Fair Value Through Profit or Loss (FVPL)* - This represents financial assets which the company, upon initial recognition, has designated at fair value through profit or loss. This shall comprise of the following sub-accounts based on the types of securities held:
- 11.2.1. Debt Securities – Government
 - 11.2.2. Debt Securities – Private
 - 11.2.3. Equity Securities
 - 11.2.4. Mutual Funds and Unit Investment Trusts
 - 11.2.5. Real Estate Investment Trusts
 - 11.2.6. Others
- 11.3. *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) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- b) 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
- c) it is settled at a future date.

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

- Foreign exchange contracts - This represents contracts to purchase/sell foreign currencies at a future date at a fixed rate.
- 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.
- 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 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 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

12. HELD-TO-MATURITY (HTM) 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 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 investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- i. 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;
- ii. occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- iii. 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.

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.

12.1. HTM Debt Securities – Government

12.1.a. 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.

12.2. HTM Debt Securities – Private

12.2.a. Unamortized Discount/Premium

12.3. 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, 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

13. 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 fair value through profit or loss;
- b) those that the company upon initial recognition designates as available for sale; 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:

- 13.1. *Real Estate Mortgage Loans* - This represents the outstanding balances of loans secured by first mortgage on real estate properties.
- 13.2. *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.
- 13.3. *Guaranteed Loans* - This represents the outstanding balances of loans granted to companies or individuals which are covered by guarantees from other entities or individuals.
- 13.4. *Chattel Mortgage Loans* - This represents the outstanding balances of loans secured by mortgage of chattels or personal properties (i.e. car plan).
- 13.5. *Notes Receivable* - This represents interest bearing loans granted by the company and evidenced by duly approved and notarized Promissory Notes.

- 13.6. *Housing Loans* - This represents outstanding balances of loans granted to employees secured by a mortgage covering their house and lot.
- 13.7. *Car Loans* - This represents outstanding balances of loans granted to employees secured by a mortgage covering their cars.
- 13.8. *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.
- 13.9. *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.
- 13.10. *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.
- 13.11. *Unquoted Debt Securities* - This represents unquoted debt securities with fixed or determinable payments and fixed maturity.
- 13.12. *Salary loans* – This represents loans secured by salaries of the borrower and, as approved by the Commission.
- 13.13. *Others Loans Receivable* - This represents all other loans which cannot be classified under any of the foregoing loan accounts.
- 13.14. *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)
- c) 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.
- d) 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.
- e) 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.

14. AVAILABLE-FOR-SALE (AFS) 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 fair value through profit or loss.

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

14.1. AFS Debt Securities – Government

14.1.a. 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.

14.2. AFS Debt Securities – Private

14.2.a. Unamortized Discount/Premium

14.3. AFS Equity Securities

14.4. 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 other comprehensive income is removed from other comprehensive income 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 other comprehensive income.

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.

14.5. Mutual Funds and Unit Investment Trusts

14.6. Real Estate Investment Trusts

14.7. Others

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.

In relation to the above, Section 209 of the Amended Insurance Code also provides that 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 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under Section 209.

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 (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, 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 of the Amended Insurance Code shall, so far as practicable, apply to the securities deposited under this section.

15. 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:

- 15.1. Accrued Interest Income - Cash in Banks
- 15.2. Accrued Interest Income - Financial Assets at FVPL
 - 15.2.1. Securities Held for Trading
 - 15.2.1.a. Debt Securities - Government
 - 15.2.1.b. Debt Securities - Private
 - 15.2.2. Financial Assets Designated at FVPL
 - 15.2.2.a. Debt Securities - Government
 - 15.2.2.b. Debt Securities - Private
- 15.3. Accrued Interest Income - AFS Financial Assets
 - 15.3.1. AFS Debt Securities - Government
 - 15.3.2. AFS Debt Securities - Private
- 15.4. Accrued Interest Income - HTM Investments
 - 15.4.1. HTM Debt Securities - Government
 - 15.4.2. HTM Debt Securities - Private
- 15.5. Accrued Interest Income - Loans and Receivables
 - 15.5.1. Real Estate Mortgage Loans
 - 15.5.2. Collateral Loans
 - 15.5.3. Guaranteed Loans
 - 15.5.4. Chattel Mortgage Loans
 - 15.5.5. Notes Receivable
 - 15.5.6. Housing Loans
 - 15.5.7. Car Loans
 - 15.5.8. Low Cost Housing Loans
 - 15.5.9. Sales Contract Receivable
 - 15.5.10. Unquoted Debt Securities

- 15.5.11. Salary Loans
- 15.5.12. Others
- 15.5.13. Accrued Dividends Receivable
 - 15.5.13.1 FVPL Equity Securities
 - 15.5.13.2. DVPL Equity Securities
 - 15.5.13.3. AFS Equity Securities

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

16. ACCOUNTS RECEIVABLE

This represents receivable from non-insurance transactions of the company. It may comprise of the following accounts:

- 16.1. *Advances To Agents (Agents Accounts) / Employees* - This represents advances to insurance agents and salary loans of officers and staff granted by the company to be liquidated thru regular deductions from commissions and salaries, respectively.
- 16.2. *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.
- 16.3. *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.

17. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

This shall comprise of the following accounts:

- 17.1. *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). An insurance or reinsurance 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.
- 17.2. *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.

- 17.3. *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 may be 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 other comprehensive income of those investees is presented as part of the company's other comprehensive income. 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.

18. 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 during more than one period.

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

- 18.1. *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.
- 18.2. *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.
 - 18.2.a. *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.
- 18.3. *Leasehold Improvements – At cost* - This represents the cost of additions, improvements and /or 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.
 - 18.3.a. *Accumulated Depreciation - Leasehold Improvements*
- 18.4. *IT Equipment - At cost* - This represents the cost of the information processing systems of the company including the computer hardware, customized software, and peripherals.
 - 18.4.a. *Accumulated Depreciation – IT Equipment*
- 18.5. *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.
 - 18.5.a. *Accumulated Depreciation - Transportation Equipment*
- 18.6. *Office Furniture, Fixtures and Equipment – At cost* - This represents the costs of office machines, equipment, furniture and fixtures.
 - 18.6.a. *Accumulated Depreciation - Office Furniture, Fixtures and Equipment*
- 18.7. *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.

18.7.a. Accumulated Depreciation

18.7 and 18.7.a shall comprise of the following sub-accounts:

- a) Land;
- b) Buildings and Building Improvements;
- c) Leasehold Improvements;
- d) IT Equipment;
- e) Transportation Equipment; and
- f) Office Furniture, Fixtures and Equipment.

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

18.8.a. Accumulated Depreciation – Revaluation Increment

18.8 and 18.8.a shall comprise of the following accounts:

- a) Land; and
- b) Buildings and Building Improvements.

18.9. *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 other comprehensive income 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 other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income 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, to an amount prescribed below, 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.

19. 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; or
- 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 and other 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.

20. 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.

21. 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.

22. SECURITY FUND CONTRIBUTION

This refers to contribution of the company to the Security Fund - Non-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.

23. 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:

- Service cost in profit or loss;
- Net interest on the net defined benefit liability or asset in profit or loss; and

- Remeasurements of net defined benefit liability or asset in other comprehensive income.

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 other comprehensive income 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.

24. DERIVATIVE ASSETS HELD FOR HEDGING

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

- a) *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.
- b) *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 in other comprehensive income.
- c) *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 in other comprehensive income.

25. DEFERRED ACQUISITION COST

This represents the unearned portion of commission expense from premiums written by non-life insurance companies as at report date.

This shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as income the following year.

26. DEFERRED REINSURANCE PREMIUMS

This represents the unearned portion of premiums ceded to reinsurers by non-life insurance companies incurred from policies in force as at report date as at report date.

This account shall be computed based on the new valuation standards for non-life insurance policy reserves released by the Insurance Commission.

The measurement and recognition principles shall be in accordance with the circular on accounting for valuation of non-life insurance policy reserves.

27. 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

28. LOSSES AND CLAIMS PAYABLE

It is divided into the following categories:

- a) Outstanding Claims Reserve - the outstanding liability for claims which have already been reported and not settled.
- b) Incurred but Not Reported (IBNR) Reserves – Reserve required to cover the future liability for claims arising from incidents that have occurred but have not been reported to the non-life insurance company.

The account shall comprise of the following sub-accounts:

- 26.1. *Losses and Claims Payable – Direct* - This represents the total amount of losses and claims due and payable to policyholders and other claimants.
- 26.2. *Losses Adjustment Expenses Payable – Direct* - This represents adjustment expenses already incurred but not yet paid in connection with the settlement of losses and claims.
- 26.3. *Losses and Claims Payable to Ceding Companies – Treaty* - This represents the losses and claims due and payable to ceding companies under treaty agreements.
- 26.4. *Losses Adjustment Expenses Payable to Ceding Companies – Treaty* - This represents the unpaid share of the company in the loss adjustment expenses incurred in connection with its treaty agreements.
- 26.5. *Losses and Claims Payable to Ceding Companies – Facultative* - This represents the losses and claims payable to ceding companies on assumed facultative business.
- 26.6. *Loss Adjustment Expenses Payable to Ceding Companies – Facultative* - This represents the unpaid share of the company in the

loss adjustment expenses incurred in connection with its facultative reinsurances.

This account shall be computed based on the new valuation standards for non-life insurance policy reserves released by the Insurance Commission.

The cumulative impact of the change in valuation and the measurement subsequent to effectivity date shall be in accordance with the circular on accounting for valuation of non-life insurance policy reserves.

29. RESERVE FOR UNEARNED PREMIUM

This represents the unearned portion of premium income recognized from policies in force as at report date. This shall be divided into the following categories:

- 27.1. *Unearned Premium Reserve* - The reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date.
- 27.2. *Unexpired Risk Reserve* - An estimate of the total liability (including expenses) in respect of the exposed to risk after the valuation date of policies written prior to that date could show that the reserve required was greater or smaller than the unexpired premium reserve. If the required reserve is greater, then an additional reserve is needed.

This account shall be computed based on the new valuation standards for non-life insurance policy reserves released by the Insurance Commission.

The measurement and recognition principles shall be in accordance with the circular on accounting for valuation of non-life insurance policy reserves.

30. DUE TO REINSURERS

This shall comprise of the following sub-accounts:

- 30.1. *Premiums Due to Reinsurers – Treaty* – This represents reinsurance premiums payable by the company to all its treaty reinsurers.
- 30.2. *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.

31. FUNDS HELD FOR REINSURERS

This shall comprise of the following sub-accounts:

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

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

32. 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.

33. 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.

34. TAXES PAYABLE

This shall be comprised of the following sub-accounts:

- 32.1. *Premiums Tax Payable* - This represents the unpaid and un-remitted balances of the premium tax liability.
- 32.2. *Documentary Stamps Tax Payable* - This represents documentary stamps not yet affixed as of cut-off date on policies already issued or in force and on original issues of stock certificates.
- 32.3. *Value-added Tax (VAT) Payable* – This represents the tax due on sale of insurance policies and other goods based on cash received, net of input VAT paid by the company in the course of the company's purchases of goods or services.

- 32.4. *Deferred output VAT* – This represents the tax due on sale of insurance policies and other goods based on amounts still to be collected from counterparties. Such amount is still not due for remittance to the BIR until the receivables are collected.
- 32.5. *Income Tax Payable* - This represents income taxes due and payable to the government net of creditable taxes and/or whatever income tax payments made on a quarterly basis.
- 32.6. *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. These shall be remitted to the Bureau of Internal Revenue on a monthly basis.
- 32.7. *Fire Service Tax Payable* - This represents the unpaid balance of the Fire Service Tax liability.
- 32.8. *Other Taxes & Licenses Payable* - This represents all unpaid taxes and licenses other than income and premium taxes due the government.

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

35. 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.

36. 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:

- 34.1. *SSS Premiums Payable* - This represents to SSS premiums/contributions withheld from the salaries of officers and staff representing employees' contributions to the SSS.

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

- 34.2. SSS Loans Payable - This represents the SSS salary loan amortizations deducted from the salaries of officers and staff with outstanding loan accounts with the SSS.

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

- 34.3. Pag-ibig Premiums Payable - This represents the contributions to the Home Development Mutual Fund (HDMF Pag-ibig) deducted from the salaries of officers and staff and remitted by the company to HDMF every month.

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

- 34.4. Pag-ibig Loans Payable - This represents the Pag-ibig loan amortizations deducted from the salaries of officers and staff with outstanding loan accounts with the Pag-ibig.

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

- 34.5. 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.

37. DIVIDENDS PAYABLE

This represents cash 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.

38. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

- 36.1 Financial Liabilities Held for Trading - This represents financial liabilities 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.

- 36.2. Financial Liabilities Designated At Fair Value Through Profit Or Loss - This represents financial liabilities which the company, upon initial recognition, has designated at fair value through profit or loss.
- 36.3. 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:
- 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.

39. 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.

40. 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.

41. 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.

42. ACCRUAL FOR OTHER LONG-TERM EMPLOYEE BENEFITS

This represents accruals for the 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.

43. ASSET RETIREMENT OBLIGATION

This represents the company's obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item for property and equipment during that period.

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

44. 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.

45. PROVISIONS

This represents the amount recognized 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.

46. 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.

47. 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:

- 45.1. 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.
- 45.2. Accrued Services - This represents accruals for services rendered to the company such as janitorial, security, professional fees and others.
- 45.3. 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.

48. OTHER LIABILITIES

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

- 46.1. Deferred Income - This represents income received during the accounting period but not yet earned for which recognition as income is deferred.
- 46.2. 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.
- 46.3. 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.
- 46.4. Agency Group Tem Plan - This represents the outstanding liability of the company pertaining to the group insurance coverage of members of the agency force.
- 46.5. 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.

49. DERIVATIVE LIABILITIES HELD FOR HEDGING

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

- 47.1. 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.
- 47.2. 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.
- 47.3. 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.

EQUITY ACCOUNTS

50. CAPITAL STOCK

This represents ownership of the stockholders in the company composed of capital stocks issued and outstanding as at report date. This account shall be measured at historical cost. This shall be further subdivided as follows:

- 48.1. *Preferred Stock* - This represents shares which provide the shareholders preference as to dividends and upon liquidation. The features of the preferred shares 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 shares issued should be classified as part of liabilities.
- 48.2. *Common Stock* - This represents shares of stock issued to shareholders which have the residual equity interest in the Company.

51. 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. This account shall be measured at historical cost.

52. CONTRIBUTED SURPLUS / HOME OFFICE INWARD REMITTANCES

This represents original contributions of the shareholders as provided under the Insurance Code. For foreign companies, the equivalent account for Contributed Surplus is Home Office Inward Remittances. This account shall be measured at historical cost.

53. CONTINGENCY SURPLUS

This represents contributions of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon the approval of the Insurance Commission.

54. 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. This account shall be measured at historical cost.

55. RETAINED EARNINGS / HOME OFFICE ACCOUNT

This represents the accumulated earnings of the company reduced by whatever 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.

56. 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.

57. RESERVE ACCOUNTS

- 55.1. Reserve for AFS Securities - This represents gains or losses arising from fair value changes of available for sale securities.
- 55.2. Reserve for Cash Flow Hedge - This represents gains or losses arising from fair value changes of hedging instruments in a cash flow hedge.
- 55.3. 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.
- 55.4. Cumulative Foreign Currency Translation - This represents gains or losses arising from foreign currency translations on the following:

- a) foreign currency denominated non-monetary items, where such gains or losses are recognized directly in equity, and,
- b) translation of foreign operations with different functional currency.

58. 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.

59. REMEASUREMENT GAINS (LOSSES) ON RETIREMENT PENSION ASSET (OBLIGATION)

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

60. 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

61. GROSS PREMIUMS – DIRECT BUSINESS

This represents the aggregate premiums arising from direct business for the period being reported.

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

62. REINSURANCE PREMIUMS ASSUMED - TREATY

This represents the aggregate premiums assumed from ceding companies under treaty agreements.

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

63. REINSURANCE PREMIUMS ASSUMED - FACULTATIVE

This represents the aggregate premiums assumed from ceding companies under facultative agreements.

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

64. RETURNS AND CANCELLATIONS

This represents premiums on policies cancelled or partially modified.

This account shall be measured at fair value of the initial consideration received or receivable prior to returns or cancellations.

65. REINSURANCE PREMIUMS CEDED - TREATY

This represents premium on outward cessions under treaty agreements with reinsurers.

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

66. REINSURANCE PREMIUMS CEDED - FACULTATIVE

This represents premium on outward cessions under facultative agreements with reinsurers.

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

67. REINSTATEMENT PREMIUMS

This represents additional reinsurance premiums other than the minimum deposits from excess of loss treaty agreements when losses are recovered from such agreement.

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

68. COMMISSION INCOME - TREATY

This represents commissions due to the company for its outward cessions under treaty agreements.

Upon initial recognition, this shall be measured at fair value of the consideration received or receivable.

Subsequent to initial recognition, this shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as income the following year.

69. COMMISSION INCOME - FACULTATIVE

This represents commissions due to the company for its outward cessions under facultative agreements.

Upon initial recognition, this shall be measured at fair value of the consideration received or receivable.

Subsequent to initial recognition, this shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as income the following year.

70. OTHER UNDERWRITING INCOME

This represents underwriting income not classifiable under any of the foregoing underwriting income accounts.

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

71. 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:

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

69.2. Interest Income - Financial Assets at FVPL

69.2.1. Securities Held for Trading

69.2.1.a. Debt Securities - Government

69.2.1.b. Debt Securities - Private

69.2.2. Financial Assets Designated at FVPL

69.2.2.a. Debt Securities - Government

69.2.2.b. Debt Securities - Private

69.3. Interest Income - Available for Sale Financial Assets

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

- 69.3.2. 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.
- 69.4. Interest Income - Held-to-Maturity Investments
 - 69.4.1. HTM Debt Securities - Government
 - 69.4.2. HTM Debt Securities - Private
- 69.5. Interest Income - Loans and Receivables
 - 69.5.1. Real Estate Mortgage Loans - This represents interest earned during the period from real estate mortgage loans.
 - 69.5.2. Collateral Loans - This represents interest earned during the period from collateral loans.
 - 69.5.3. Guaranteed Loans - This represents interest earned during the period from guaranteed loans.
 - 69.5.4. 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.
 - 69.5.5. Notes Receivable - This represents interest earned during the period derived from interest bearing promissory notes.
 - 69.5.6. Housing Loans - This represents interest earned during the period derived from housing loans.
 - 69.5.7. Car Loans - This represents interest earned during the period derived from car loans.
 - 69.5.8. Low Cost Housing Loans - This represents interest earned during the period arising from low cost housing loans.
 - 69.5.9. Sales Contracts Receivables - This represents interest earned on purchase money mortgages.
 - 69.5.10. Salary Loans – This represents interest earned on salary loans.
 - 69.5.11. Unquoted Debt Securities - This represents interest earned on unquoted debt securities which are classified as loans and receivables.
 - 69.5.12. 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.

72. 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 shareholders' right to receive payment is established and shall be measured at fair value of the consideration received or receivable.

73. 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:

- 71.1. Financial Assets and Liabilities Held for Trading
- 71.2. Financial Assets and Liabilities Designated at Fair Value through Profit and Loss
- 71.3. Available for Sale Financial Assets
- 71.4. Investment Property
- 71.5. Others - This represents gains derived from the disposal or sale of assets other than those classified above.

74. GAIN ON SALE OF PROPERTY AND EQUIPMENT

This represents gain realized on sale of property and equipment.

75. 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:

- 73.1. Financial Assets and Liabilities Held for Trading
- 73.2. Financial Assets and Liabilities Designated at Fair Value through Profit and Loss
- 73.3. Derivative Assets/Liabilities

73.4. Investment Property

76. 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.

77. 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 receivables, 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

78. LOSSES - DIRECT BUSINESS

This represents the aggregate losses and claims the non-life insurance company has incurred on its direct business.

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

79. LOSSES ON REINSURANCE ASSUMED - TREATY

This represents the aggregate losses and claims the non-life insurance company has incurred on its acceptances under treaty agreements.

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

80. LOSSES ON REINSURANCES ASSUMED - FACULTATIVE

This represents the aggregate losses and claims the non-life insurance company has incurred on its acceptances under facultative reinsurances.

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

81. SALVAGE RECOVERIES / LOSS RECOVERIES ON DIRECT BUSINESS

This represents the aggregate net amount recovered or recoverable on account of losses on direct business of a non-life insurance company.

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

82. LOSS RECOVERIES ON REINSURANCE CEDED – TREATY

This represents the aggregate share of the reinsurers on the claims and losses and adjustment expenses of the company on business ceded under treaty agreements of a non-life insurance company.

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

83. LOSS RECOVERIES ON REINSURANCE CEDED – FACULTATIVE

This represents the aggregate share of the reinsurers on the claims and losses and adjustments expenses of the company on business ceded under facultative reinsurances of a non-life insurance company.

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

84. LOSS ADJUSTMENT EXPENSES – DIRECT

This represents the gross expenses for the adjustment of claims and losses against the non-life insurance company arising out of direct business.

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

85. LOSS ADJUSTMENT EXPENSES ON REINSURANCE ASSUMED – TREATY

This represents the expenses for the adjustment of claims and losses arising out of the non-life insurance company's share on reinsurance acceptances under treaty agreements.

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

86. LOSS ADJUSTMENT EXPENSES ON REINSURANCE ASSUMED – FACULTATIVE

This represents the expenses for the adjustment of claims and losses arising out of the non-life insurance company's share on reinsurance acceptances under facultative reinsurances.

87. INCREASE/DECREASE IN RESERVE FOR UNEARNED PREMIUM

This represents the net change in the reserves from the previous reporting period.

88. RETROCESSION COMMISSION

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

This shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as expense the following year.

89. COMMISSION EXPENSE - DIRECT

This represents the commissions given to insurance intermediaries for direct business solicited by the non-life insurance company.

Upon initial recognition, this account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

Subsequent to initial recognition, this shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as expense the following year.

90. COMMISSION EXPENSES ON REINSURANCE ASSUMED – TREATY

This represents commissions given to ceding companies under treaty agreements.

Upon initial recognition, this account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

Subsequent to initial recognition, this shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as expense the following year.

91. COMMISSION EXPENSES ON REINSURANCE ASSUMED – FACULTATIVE

This represents commissions given to ceding companies under facultative reinsurances.

Upon initial recognition, this account shall be recognized when incurred and shall be measured at fair value of the price that would be paid or payable.

Subsequent to initial recognition, this shall be calculated based on the 24th method for all classes of business except for marine cargo where commissions for the last two months of the year are recognized as expense the following year.

92. OTHER UNDERWRITING EXPENSES

This represents underwriting expenses not classifiable under any of the foregoing underwriting 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.

93. OTHER TAX EXPENSE

This represents taxes not classifiable under any of the foregoing tax 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.

94. 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.

ADMINISTRATIVE EXPENSES

95. 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.

96. 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.

97. MEDICARE CONTRIBUTIONS

This represents the company's share in the contribution for the Medicare 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.

98. 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.

99. 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.

100. 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.

101. 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.

102. 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.

103. 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.

104. 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.

105. 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.

106. 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.

107. 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.

108. 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.

109. 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.

110. 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.

111. 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.

112. 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.

113. 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.

114. 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.

115. ASSOCIATION DUES

This represents membership and monthly dues and fees paid to various professional organizations/association such as PIRA, Personal Management Association of the Philippines, 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.

116. 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.

117. 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.

118. 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.

119. 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.

120. 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.

121. 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.

122. RENTAL EXPENSE

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

123. 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.

124. 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.

125. 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.

126. 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.

127. 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.

128. 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.

129. 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.

130. 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.

131. 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:

129.1. Due from Ceding Companies

- 129.2. Amounts Recoverable from Ceding Companies
- 129.3. AFS Financial Assets
- 129.4. HTM Investments
- 129.5. Loans and Receivables
- 129.6. Accounts Receivables
- 129.7. Property and Equipment
- 129.8. Investment Property
- 129.9. Intangible Assets
- 129.10. Others

132. 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.

133. PROVISION FOR INCOME TAX

- 131.1. 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.
- 131.2. Provision for Income Tax - Current
This represents the corporate income tax of the company for the period based on its taxable income.
- 131.3. 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.

134. 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.