

Accounting Standards for Enterprises No. 26 - Reinsurance Contracts**No. 3 [2006] of the Ministry of Finance**

Chapter I General Principles

Article 1 With a view to regulating the recognition and measurement of reinsurance contracts, and the presentation of relevant information, the present Standards is formulated according to the Accounting Standards for Enterprises - Basic Standards .

Article 2 The term "reinsurance contract" refers to an insurance contract under which the insurer (reinsurance cedant) cedes a certain portion of a premium to another insurer (reinsurance acceptor) and the reinsurance acceptor makes compensation to the cedant for the compensation cost and other relevant expenses arising from the original insurance contract.

Article 3 The present Standards shall apply to the reinsurance contracts issued and held by insurers.

A sub-reinsurance contract under which an insurer cedes a reinsurance business which is ceded to it to another insurer shall be subject to the present Standards .

Article 4 The original insurance contracts issued by insurers shall be subject to the Accounting Standards for Enterprises No. 25 - Original Insurance Contracts.

Chapter II Accounting Treatment of Ceded-out Business

Article 5 No cedant may countervail the liabilities formed by relevant original insurance contracts with the assets formed by reinsurance contracts against.

No cedant may countervail the expenses or incomes formed by the relevant original insurance contracts with the incomes or expenses formed by the reinsurance contracts.

Article 6 A cedant shall, in the current period of recognition of the premium income of an original insurance contract, calculate and determine the ceded premium in light of the reinsurance contract and record it into the profits and losses of the current period.

Meanwhile, if the original insurance contract is a non-life original insurance contract, the cedant shall, according to relevant provisions of the reinsurance contract, calculate and recognize the receivable reinsurance unearned premium reserve as an asset and countervail with it the undue premium reserve.

When the cedant adjusts the balance of the unearned premium reserve of the original insurance contract on the balance sheet date, it shall adjust the amount of the receivable reinsurance unearned premium reserve accordingly.

Article 7 A cedant shall, in the current period of recognition of the premium income of the original insurance contract, calculate and determine the reinsurance expenses which shall be recovered from the reinsurance acceptor and record them into the profits and losses of the current period.

Article 8 A cedant shall, in the current period of drawing the reserve for unearned premium, reserve for life insurance liabilities or reserve for long-term health insurance liabilities of an original insurance contract, calculate and determine the corresponding reserves that shall be recovered from the reinsurance acceptor according to the provisions of the relevant reinsurance contract, and shall recognize the corresponding reinsurance reserve receivable as an asset.

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Article 9A cedant shall, in the current period of determining and offsetting the amount of an indemnity payment or the expenses actually incurred for the settlement of a claim against the balance of the corresponding reserve on the original insurance contract, offset it against the balance of the corresponding receivable reinsurance reserve.

Meanwhile, it shall, according to the provisions of the re-insurance contracts, calculate and determine the compensation cost that shall be recovered from the reinsurance acceptor, and record it into the profits and losses of the current period.

Article 10A cedant shall, in the current period of the canceling of an original insurance contract ahead of schedule, calculate and determine the amount of adjustment to the ceded premium or the recovered reinsurance expenses according to the provisions of the relevant reinsurance contract, and record it into the profits and losses of the current period. Meanwhile, it shall write off the amount of the relevant reinsurance reserves receivable.

Article 11A cedant shall, in the current period of making an adjustment to the compensation cost of an original insurance contract because of the obtainment or disposal of any post-loss goods, or recognition and receipt of any subrogation recourse fee, calculate and determine the amount of adjustment to the to-be-recovered compensation cost according to the provisions of the relevant reinsurance contract, and record it into the profits and losses of the current period.

Article 12 When a cedant issues a reinsurance bill, it shall recognize the reinsurance guarantee deposited in the current period as described in the bill as the deposited-in reinsurance guarantee. Meanwhile, it shall write off the relevant deposited-in reinsurance guarantee in light of the refund of the deposited-in reinsurance guarantee of the previous period as described in the bill.

The cedant shall, according to the relevant reinsurance contract, calculate the interest on the deposited-in reinsurance guarantee of each period and record it into the profits and losses of the current period.

Article 13A cedant shall, when being able to calculate and determine the net profit commissions which it shall charge from the reinsurance acceptor, treat the profit commission as a recovered reinsurance expense according to the provisions of the relevant reinsurance contracts, and record it into the profits and losses of the current period.

Article 14A For an excess of loss reinsurance or any other non-proportional reinsurance contract, the cedant shall, according to the provisions of the reinsurance contract, calculate and determine the premium to be ceded out, and record it into the profits and losses of the current period.

A cedant shall, when making an adjustment to the premium, record the amount of adjustment into the profits and losses of the current period.

A cedant shall, when being able to calculate and determine the compensation cost that shall be recovered from the reinsurance acceptor, record the to-be-recovered compensation cost into the profits and losses of the current period.

Chapter III Accounting Treatment of Ceded-in Business

Article 15 No reinsurance premium income may be recognized unless it can simultaneously satisfy the following conditions:

(1) The reinsurance contract is established and assumes relevant insurance liabilities;

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(2)The economic benefits related to the reinsurance contract are likely to flow in;

(3)The economic benefits related to the reinsurance contract can be measured reliably.

The reinsurance acceptor shall, according to the provisions of the relevant reinsurance contracts, calculate and determine the amount of reinsurance premium income.

Article 16The reinsurance acceptor shall, in the current period of recognizing a reinsurance premium income, calculate and determine the reinsurance expenses according to the provisions of the relevant reinsurance contracts, and record them into the profits and losses of the current period.

Article 17The reinsurance acceptor shall, when being able to calculate and determine the net profit commissions that it shall pay to the cedant, treat the profit commissions as a reinsurance expense according to the provisions of the relevant reinsurance contracts, and record it into the profits and losses of the current period.

Article 18The reinsurance acceptor shall, when receiving a reinsurance bill, make an adjustment to the relevant premium income and premium expenses in light of the amount as specified in the bill, and record the amount of adjustment into the profits and losses of the current period.

Article 19The reinsurance acceptor shall accord with the relevant provisions of the Accounting Standards for Enterprises No. 25 - Original Insurance Contracts when it draws reserves for unearned reinsurance premiums, outstanding reinsurance claims, reinsurance life insurance liabilities and the reinsurance of long-term health care insurance liabilities, and tests the adequacy of the relevant reserves.

Article 20The reinsurance acceptor shall, in the current period of receipt of a reinsurance bill, treat the amount of the reinsurance indemnity payment as described in the said bill as the reinsurance compensation cost and record it into the profits and losses of the current period.

Meanwhile, it shall offset it against the balance of the reinsurance reserve.

Article 21The reinsurance acceptor shall, when receiving a reinsurance bill, shall recognize the reinsurance guarantee to be deposited in the current period as stated in the bill as the deposited-out reinsurance guarantee. Meanwhile, it shall write off the relevant deposited reinsurance guarantee in light of the refund of the deposit-out reinsurance guarantee of the previous period as stated in the bill.

The reinsurance acceptor shall, according to the provisions of the reinsurance contract, calculate the interest on the deposit-out reinsurance guarantee of each period and record it into the profits and losses of the current period.

Chapter IV Presentation

Article 22An insurer shall, in its balance sheets, separately present the following items related to the reinsurance contract:

- (1)the receivable reinsurance;
- (2)the receivable unearned reinsurance premium reserve;
- (3)the receivable reserve for outstanding reinsurance claims;
- (4)the receivable reserve for reinsurance life insurance liabilities;
- (5)the receivable reserve for the reinsurance of long-term health insurance liabilities; and

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(6)the payable reinsurance.

Article 23An insurer shall, in its profit statements, separately present the following items related to the reinsurance contract:

- (1)the reinsurance premium income;
- (2)the ceded-out premium;
- (3)the recovered reinsurance expense;
- (4)the reinsurance expense;
- (5)the recovered compensation cost;
- (6)the reinsurance compensation cost;
- (7)the recovered reinsurance compensation cost;
- (8)the recovered reserve for life insurance liabilities; and
- (9)the recovered reserve for long-term health insurance liabilities.

Article 24An insurer shall, in its notes, discover the following information related to the reinsurance contract:

- (1)the information on the increase and decrease of reinsurance reserves for the ceded-in business.
- (2)the main actuarial assumptions and methods for making reinsurance reserves and testing the adequacy of the reinsurance reserves for the ceded-in business.

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