COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 25 October 1989

Amended Proposal for a

<u>COUNCIL DIRECTIVE</u>

on the annual accounts and consolidated accounts of insurance undertakings

(presented by the Commission pursuant to Article 149(3) of the EEC Treaty)

Explanatory memorandum

In the light of the Opinion of the European Parliament[1] and that of the Economic and Social Committee[2] on the proposal for a Council Directive on the annual accounts and consolidated accounts of insurance undertakings[3], the Commission presents herewith the revised version of its proposal.

The principal changes in relation to the original version concern the following points:

1. Lloyd's
2. Gross and net presentation in the profit and loss account
3. The presentation of commissions.

The Commission has been unable to accept Parliament's proposed amendments to the valuation rules (proposed amendments Nos 14 and 15). It was Parliament's wish that the purchase price principle should alone be applied to the valuation of investments, thereby obviating the need to indicate current values.

While this approach may be more in keeping with the principles of the Fourth Directive than that chosen for the Commission's proposal, it fails to take account of the peculiarities of insurance and the objectives of the proposed Directive. The Commission has therefore stuck to the approach followed in Articles 41 et seq. Depending on what Member States decide, undertakings may accordingly apply either method. The values obtained using the method not employed in the balance sheet are to be disclosed in the notes on the accounts. Hence, as a rule, two values will be given in every set of annual accounts. Full comparability is thus brought about - the decisive factor as far as the Commission is concerned.

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1 OJ No C 96, 17.04.1989.
2 OJ No C 319, 30.11.1987.
3 OJ No C 131, 18.5.1987.

1. Lloyd's

Article 3 of the proposal simply stated that the Directive applied in principle to Lloyd's and left it to the United Kingdom as the competent Member State to make the necessary adjustments.

In view of the unorthodox structure of Lloyd's the question had already arisen, however, whether just Lloyd's as a whole, or Lloyd's and its constituent parts, should be obliged to render accounts. Parliament has proposed an amendment in this respect (No 3) which the Commission agrees with and which has accordingly been adopted. The amended version provides that the Lloyd's syndicates are also accountable in principle. What this accountability consists of in detail is, however, not stated as yet. Parliament's more far-reaching proposal that the members of Lloyd's ("names") should also be made accountable under the Directive has been rejected as impractical, unreasonable and unlikely to result in the provision of useful information.

2. Gross and net presentation in the profit and loss account

On the question of gross or net presentation in the profit and loss account, the proposal provided for a hybrid system with a marked tendency towards gross presentation. Surprisingly, Parliament has voted in favour of net presentation, which to all practical purposes would permit disclosure of the reinsurance share only in the case of premiums.

The Commission is aware of the problems involved in disclosing reinsurance, especially in the case of undertakings which have to prepare detailed accounts for each category of activity. It is also aware, however, how informative the relevant data are as far as policy-holders and other creditors are concerned. For this reason it has felt unable to go along entirely with Parliament. It considers non-disclosure of the reinsurance share to be justifiable at most in the case of bonuses and rebates.

The amended proposal therefore incorporates a system which provides in principle for net presentation while requiring disclosure of the reinsurance share in the case of

- premium income
- claims incurred, and
- operating expenses.

These are the key factors when it comes to determining an undertaking's policy with regard to reinsurance. The Commission believes that, by limiting disclosure to these factors, it has struck a balance between the interests of insurers, policy-holders and other interested parties.

3. Commissions

In the proposal, operating expenses were shown in Article 29 under items I 6 and II 12 "Commissions and other technical charges". These items were subdivided into sub-items

(a) commissions
(b) administrative expenses
(c) commissions and profit participations from other insurance undertakings
(d) variations in deferred acquisition costs.

This presentation has been criticized on the following grounds: under the Fourth Directive, the only presentations possible were those according to "type" ("primary principle") or function ("secondary principle"). The Commission had generally followed the secondary principle. However, by requiring that "commissions" be shown, it was unjustifiably following the primary principle. The Commission has not been entirely deaf to this criticism, and now subdivides the items as follows:

(a) acquisition costs, and
(b) administrative expenses.

Nevertheless it considers disclosure of commissions to be so important that provision is made for them to be shown separately under "acquisition costs". But the term "commissions" is now used to cover only commissions falling due on the conclusion of insurance contracts and not collecting commissions. As commissions of the former type greatly outnumber all others, the Commission considers this incompleteness to be acceptable.

Article 2

Scope

Article 2 has had a new paragraph added to it. The former Article 2 now becomes Article 2(1).

In paragraph 1(c) the words "whose whole or main activity consists of" have been replaced by "carrying on". The Directive's scope is thus extended to cover not only specialist reinsurance undertakings but all undertakings which transact reinsurance business, whether on its own or in conjunction with other classes of insurance.

Paragraph 2 is designed to accommodate a situation peculiar to Germany: in that country health insurance is transacted mainly "according to the principles of life insurance", i.e. on the basis of premium rates approved by the supervisory authority subject to the formation, using actuarial techniques, of provisions for increasing age. Health insurance undertakings therefore produce accounts broadly similar to those of life insurance undertakings (cf. also Article 16(4) of the first non-life insurance coordination Directive). There is no reason to proceed differently in the present Directive.

Paragraph 2 is based largely on a proposal by the Economic and Social Committee (ESC 791/87; point 2.6).

Article 5

Layout of the balance sheet

1. Land and buildings occupied by the insurance undertaking for its own activities

(Assets C I)

The separate disclosure of land and buildings occupied by the insurance undertaking for its own activities has, in accordance with Parliament's proposal (proposed amendment No 4), been retained and clarified. In order to ensure parallelism, in this instance as in others, with the Directive on the annual accounts of banks (cf. Directive 86/635/EEC, Article 4(10)), Member States are given the opportunity of disclosing the corresponding details in the notes on the accounts.

2. Investment pools

(Assets C III)

To the list of investments has been added a sub-item "Participation in investment pools". This is to take account of the situation in those Member States in which several undertakings may own investments jointly without the reporting undertaking knowing at any given time which individual investments it has an interest in.

3. Own shares (Assets C V of the old version, F III of the new version)

In transferring "Own shares" from assets item C V to item F III in the new version, regard has been had mainly to the fact that they do not carry dividends and hence do not fulfil the requirements of normal investments.

4. Debtors arising out of direct insurance operations (Assets D of the old version, assets E of the new version)

The item "Debtors arising out of direct insurance operations" (assets D 1 of the old version) has been subdivided into

- policy-holders
- agents
- other debtors.

This reflects a practice that is widespread in the Member States and has been done in response to wishes expressed during the deliberations of the Council's economic questions working party.

5. Provision for bonuses and rebates (Liabilities C 4)

The additional phrase "... unless it is shown under C 2" covers the situation mentioned in Articles 25 and 34, whereby bonuses and rebates may be used *inter alia* to increase technical provisions, and in particular life insurance provisions.

6. Consumables (Assets E 2)

The assets item "Consumables" has been deleted as it is of only minor importance to insurance undertakings. For the same reason Parliament's proposal that it be replaced by "Consumables or perishables" has likewise not been adopted (cf. proposed amendment No 5).

"Commitments by way of guarantee" (Article 7)

The new wording makes it clearer than before that, despite the uniform terminology used in many languages ("commitments by way of guarantee"), commitments arising out of insurance contracts cannot be classed with commitments by way of guarantee within the meaning of Article 14 of Directive 78/660/EEC.

Fund-linked life insurance (Article 12)

The success or failure of investments which the insurance undertaking carries out for the benefit of life insurance policy-holders who bear the investment risk does not affect the results of the insurance undertaking. It therefore seems justified to clearly distinguish such investments from other investments, and to this end to keep them entirely separate from the listed investments.

Deferred acquisition costs in life insurance (Article 15)

Acquisition costs in life assurance may be

- shown as an asset
- zillmerized, or
- written off.

The previous version was silent on what should be done if, in the last case, the deferred acquisition costs exceed the life insurance provision. This omission is rectified by means of the third subparagraph of Article 15(2).

Article 18

"Proprietors" has been replaced by "persons" in order to encompass mutual insurance companies.

Reserves (Article 17)

The statement in the second paragraph of Article 17 to the effect that all reserves must be shown separately as sub-items to the item "Reserves" has been included at the request of Parliament (proposed amendment No 7).

Equalization provisions (Article 26)

There are special risks, such as nuclear power plants, wide-bodied aircraft and pharmaceutical risks, for which special provisions are set up, although they are in the nature of equalization provisions. Under the previous version of Article 26 they would have had to be included in "Other technical provisions". The item "Equalization provisions required by national law" would therefore have been incorrect. The new second sentence in Article 26(1) is intended to put matters right.

Life reinsurance (Article 28)

The new paragraph 4 takes account of the different ways in which reinsurers transact life reinsurance business. It may be transacted on a fund basis and hence like normal direct life insurance. But it may, especially where there is a commitment of limited duration only, also be transacted using non-life business techniques. The distinction drawn in the Directive between life and non-life insurance business seems unjustified in such cases. An exception is therefore made in such cases to the otherwise valid principle of separate accounting for each category. The amendment has been made in response to a request by the Economic and Social Committee (ESC 791/87, end of point 2.6).

Premiums resulting from bonus and rebate provisions (Article 30(2)(a))

The amendment reflects the legal position in certain Member States.

Profit and loss account

Article 29

1. On the question of gross or net presentation, Parliament asks that greater use be made of the net principle. Both in the case of claims incurred and in that of bonuses and rebates it considers disclosure of the reinsurance share to be inappropriate (proposed amendments Nos 9, 10, 12 and 13).

The Commission has been able to accept the proposals only in respect of bonuses and rebates. In the case of claims incurred it considers disclosure of the reinsurance share to be indispensable to a reader who wishes to gain as complete a picture as possible of the key data relating to an undertaking. The Directive therefore provides for both gross and net presentation in the case of the three most important items from the reader's point of view, namely:

- premiums
- claims incurred, and
- operating expenses.

This compromise solution takes account of the interests not only of the insurance industry but also of the public at large.

2. The amendment to item I 1 (c) ("change in provision for unearned premiums") is to allow for the fact that, pursuant to Article 22, the unexpired risks provision may be shown either under liabilities item C 1 (unearned premiums) or under liabilities item C 6 (other technical provisions). If it is shown under unearned premiums, any changes in it must also be shown under premiums. The amendment is in line with a proposal by the Economic and Social Committee (ESC 791/87, end of point 2.7).

3. The allocated investment return is now shown at 3 after premiums and other income. The reader can thus take in all technical income at a glance. Comparability does not suffer unduly as a result. It can be achieved by deducting the allocated investment return from the second technical result (11).

Claims incurred (Article 33)

Article 33(2) has undergone a mere drafting change.

Allocated investment return (Article 37)

Article 37(2) corresponds to the old Article 38(3). The new paragraph 3 is intended to enable Member States to ensure uniform disclosure and prevent abuses in their respective territories. Thus in the case of non-life business they can, for instance, prevent the result shown in the technical account from being enhanced by the transfer of investment returns from the non-technical account. The amendment is in line with a proposal by the Economic and Social Committee (ESC 791/87, end of point 2.9).

Investment income and charges (Article 38)

The provision is arranged more systematically than before, i.e. according to undertakings which transact

- non-life business
- life business, and
- both life and non-life business.

The new paragraph 4 is intended to allow a greater measure of flexibility for those Member States in which the assets set aside for policy-holders and those set aside for shareholders are clearly identified. Under the previous version, in life insurance even those amounts which are clearly allocated to the shareholders as having been obtained from the assets set aside for them would have had to be shown first in the technical account despite the fact that, according to the approach taken by the Directive, that account shows only amounts allocated to the policy-holders.
Paragraph 4 should enable Member States in which this practice prevails to save undertakings from having to proceed in this roundabout way (see also

the Opinion of the Economic and Social Committee, point 2.9.2).

Combined methods (Article 40)

According to the new version of paragraph 2, the effects of the methods applied pursuant to paragraph 1 are to be indicated in the notes on the accounts only in the event of a change of method. It is not possible to indicate such effects on the first application of such a method as the necessary figures simply do not exist, and according to the thinking underlying Article 40, would not suffice even to enable estimates to be made.

Fund-linked life insurance (Article 42)

The amendment to paragraph 2 is intended to make clearer the distinction between fund-linked life insurance as referred to in this Article and ordinary life insurance.

Valuation methods (Articles 41 et seq.)

Parliament's proposed amendments Nos 14 and 15 have not be accepted. They are incompatible with the purpose of the Directive which is to establish comparability between the annual accounts of insurance undertakings throughout the Community.

Two valuation methods are applied as a rule in the Community: valuation according to the purchase price principle and valuation according to the current value principle. A strong case can be made out for either method, the arguments in favour of the one cancelling out those in favour of the other. For that reason the Directive does not come down on the side of either method but creates comparability via a kind of dual valuation.

Parliament, however, advocated application of the purchase price principle alone. The interests of undertakings wishing to highlight their performance with the help of up-to-date figures based on current values would as a result have been overridden by the interests of undertakings more desirous of forming hidden reserves.

Valuation of land and buildings (Article 45)

The amendments to Article 45(3) and (4) are in response to proposals by Parliament (cf. proposed amendments Nos 16 and 17). The addition to paragraph 3 concerns the qualifications of the person valuing the land and buildings: outside the scope of Directive 89/48/EEC on the recognition of higher-education diplomas, such qualifications are to be a matter for the Member State in which the land and buildings are situated.

The new wording of paragraph 4 makes it clear that approved valuers may also be called in to determine the extent of a value adjustment.

Valuation provisions

Articles 46 (valuation provisions differing from those of Article 33 of the Fourth Directive)

47 (fixed assets)

48 (tangible assets)

49 (current assets)

have been redrafted without any substantive changes being made.

Technical provisions (Article 52)

With regard to the formation of provisions for outstanding claims, valuation simplification procedures such as the weighted average method are applied whenever possible. Although such procedures are also provided for in the Fourth Directive, their application is restricted to stocks and movable assets. Without a corresponding amendment, their application to technical provisions would therefore be inadmissible. Such is the purpose of Article 52(2).

Computation of the life insurance provision (Article 55)

Article 55(2) incorporates an amendment requested by Parliament clarifying the position with regard to the qualifications of the actuary responsible for computing the life insurance provision. The amendment also covers actuaries employed by the insurance undertaking (proposed amendment No 19).

Provision for outstanding claims (Article 56)

The remarks made under Article 55 concerning the computation of the life insurance provision also hold true for the amounts to be set aside according to actuarial methods for annuity payments by way of provisions for outstanding claims (cf. proposed amendment No 20).

Contents of the notes on the accounts (Article 58)

1. Article 58(1) - breakdown by categories of insurance activity

Under the previous version, non-life reinsurance acceptances also had to be broken down according to the classes of insurance listed in the First Directive. This obligation now exists only in respect of direct insurance. This is because classification according to the First Directive does not have to be practised outside the EEC. For similar reasons the idea of a further breakdown for life reinsurance acceptances has also been dropped.

Article 58(2) - life reinsurance

The provision relates to the circumstances referred to in Article 28(4): where a specialist or other reinsurance undertaking which transacts life reinsurance using non-life insurance techniques establishes only one technical account (for non-life business) it must break down its premium income according to non-life insurance business and life insurance business.

Article 60 - consolidated accounts

1. Article 60(3) - principle of full information

Article 60(3) provides for an exception in the case of technical provisions to the principle of full information laid down in Article 18 of the Seventh Directive (83/349/EEC). Owing to the considerable differences which currently exist at national level in the way such provisions are shown in the balance sheet, standardization in the consolidated accounts does not seem appropriate in this case. For example, if under the national law applicable to a foreign subsidiary the setting-up of belated claims or equalization provisions is not admissible, those provisions need not be made in the consolidated accounts either.

2. Article 60(5) - intragroup operations

Article 26 of the Seventh Directive provides that intragroup operations are in principle to be eliminated from the consolidated accounts. Income earned under a lease agreement between a parent and its subsidiaries would therefore not appear in the consolidated profit and loss account, regardless of the fact that it might benefit policy-holders through profit-sharing. Article 26 on its own would, therefore, in this instance lead to an incorrect compulsory disclosure. A derogation limited to the provision for bonuses and rebates therefore appears justified.

3. Article 60(6) - consolidated balance sheet date

Article 27(3) of the Seventh Directive provides that the period between an individual undertaking's balance sheet date and the consolidated balance sheet date may not be more than three months. This period is clearly too short in the case of insurance, having regard in particular to the delays due to reinsurance transactions. A lengthening of this period to six months appears justified.

4. Article 60(7) - uniformity of valuation

Article 29 of the Seventh Directive lays down the principle of uniformity of valuation. According to this principle, the life insurance provision, say, of the subsidiary would have to be revalued in the consolidated accounts in accordance with the principles applicable to the parent undertaking, which - given the different mortality tables or interest rates - would surely lead to absurdities. It therefore appears justified to depart from this principle in the case of technical provisions.

Branches

The proposal needs to be supplemented by a provision on the publication of annual accounting documents of insurance undertakings' branches. The Commission considers it appropriate, however, in this connection to await the adoption of the eleventh Council company law Directive on disclosure requirements in respect of branches. It will then immediately present a proposal reflecting the contents both of that Directive and of the Directive of 13 February 1989 on the publication of annual accounting documents of branches of credit and financial institutions.

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Amended Proposal for a

COUNCIL DIRECTIVE

on the annual accounts and consolidated accounts of

insurance undertakings

THE COUNCIL OF THE EUROPEAN COMMUNITIES,	THE COUNCIL OF THE EUROPEAN COMMUNITIES,
Having regard to the Treaty establishing the European Economic Community, and in particular Article 54 thereof,	Having regard to the Treaty establishing the European Economic Community, and in particular Article 54 thereof,
Having regard to the proposal from the Commission,	Having regard to the proposal from the Commission,
Having regard to the opinion of the European Parliament,	In cooperation with the European Parliament
Having regard to the opinion of the Economic and Social Committee,	Having regard to the opinion of the Economic and Social Committee,
Whereas Article 54 (3) (g) of the Treaty requires the coordination to the necessary extent of the safeguards which, for the protection of the interests of members and others, are required by Member States for companies or firms within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community;	unchanged
Whereas the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies [1], as last amended by the Act of Accession of Spain and Portugal, need not be applied to insurance companies, hereinafter referred to as 'insurance undertakings', pending subsequent coordination; whereas, in view of the importance of insurance undertakings in the Community, such coordination cannot be delayed any longer following implementation of Directive 78/660/EEC;	

[1] OJ No L 222, 14. 8. 1978, p. 11.

Whereas the Seventh Council Directive 83/349/EEC of 13 June 1983 based on Article 54 (3) (g) of the Treaty on consolidated accounts [2] provides for derogations for insurance undertakings only until expiry of the deadline imposed for the application of this Directive; whereas this Directive must therefore also contain provisions specific to insurance undertakings in respect of consolidated accounts;

Unchanged

Whereas such coordination is also urgently required owing to the Community-wide operations of insurance undertakings; whereas, for creditors, debtors, members, policy-holders and their advisers and for the general public, improved comparability of the annual accounts and consolidated accounts of these undertakings is therefore of crucial importance;

Whereas, in the Member States, insurance undertakings of different legal forms are in competition with each other; whereas undertakings engaged in the business of direct insurance customarily engage also in the business of reinsurance and are therefore in competition with specialist reinsurance undertakings; whereas it is therefore appropriate not to confine coordination to the legal forms covered by Directive 78/660/EEC, but to choose a scope which is in line with the First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life insurance [3] and the First Council Directive 79/267/EEC of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct life assurance [4], both

as last amended by the Act of Accession of Spain and Portugal, but which also includes certain undertakings that are excluded from the scope of those Directives and companies and firms which are specialist reinsurance undertakings;

[2] OJ No L 193, 18. 7. 1983, p. 1.
[3] OJ No L 228, 16. 8. 1973, p. 3.
[4] OJ No L 63, 13. 3. 1979.

Whereas, in the Member States, insurance undertakings of different legal forms are in competition with each other; whereas undertakings engaged in the business of direct insurance customarily engage also in the business of reinsurance and are therefore in competition with specialist reinsurance undertakings; whereas it is therefore appropriate not to confine coordination to the legal forms covered by Directive 78/660/EEC, but to choose a scope which is in line with the First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life insurance [3] and the First Council Directive 79/267/EEC of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct life assurance [4], both

as last amended by the Act of Accession of Spain and Portugal, but which also includes certain undertakings that are excluded from the scope of those Directives and companies and firms which are reinsurance undertakings;

[2] OJ No L 193, 18. 7. 1983, p. 1.
[3] OJ No L 228, 16. 8. 1973, p. 3.
[4] OJ No L 63, 13. 3. 1979.

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Whereas although, in view of the specific characteristics of insurance undertakings, it appears appropriate to propose a separate Directive on annual accounts and consolidated accounts for such undertakings, this must not result in a set of standards being established which is separate from those of Directives 78/660/EEC and 83/349/EEC; whereas such separate standards would be neither appropriate nor consistent with the basic principles underlying the coordination of company law since, given the important place they occupy in the economy of the Community, insurance undertakings cannot be excluded from the framework of standards devised for undertakings generally; whereas for this reason only the particular characteristics of insurance undertakings are taken into account, and this Directive therefore deals only with exceptions to the rules contained in Directives 78/660/EEC and 83/349/EEC;

unchanged

Whereas there are important differences in the structure and content of the balance sheets of insurance undertakings in the various Member States; whereas this Directive must therefore lay down the same structure and the same item designations for the balance sheets of all insurance undertakings in the Community;

Whereas, if the annual accounts and consolidated accounts are to be comparable, a number of basic questions regarding the presentation of certain transactions in the balance sheet must be settled;

Whereas, in the interests of greater comparability, it is also necessary that the content of certain balance sheet items be determined precisely;

Whereas the same also applies to the composition and definition of certain items in the profit and loss account;

Whereas the comparability of figures in the balance sheet and profit and loss account also depends crucially on the values at which assets and liabilities are entered in the balance sheet; whereas for a proper understanding of the financial situation of insurance undertakings it is necessary to disclose the current value of investments as well as their value based upon the principle of purchase price or production costs;

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Whereas, in view of the special nature of insurance undertakings, certain changes are necessary with regard to the notes on the annual accounts and on the consolidated accounts;

unchanged

Whereas, in line with the intention to cover all those insurance undertakings which are within the scope of Directives 73/239/EEC and 79/267/EEC as well as certain others, derogations are not provided for small and medium-sized insurance undertakings such as are provided for under the terms of Directive 78/660/EEC, but certain small mutual undertakings which are excluded from the scope of the said Directives 73/239/EEC and 79/267/EEC should not be covered;

Whereas for the same reasons, the scope allowed Member States under Directive 83/349/EEC to exempt parent undertakings from the consolidation requirements if the undertakings to be consolidated do not together exceed a certain size has not been extended to insurance undertakings; whereas in view of its particular nature special provisions are needed for the association of underwriters known as Lloyd's;

Whereas the provisions of this Directive should also apply to the consolidated accounts drawn up by a parent undertaking which is a financial holding company and where its subsidiary undertakings are either exclusively or mainly insurance undertakings;

Whereas the examination of problems which arise in connection with this Directive, notably concerning its application, requires the cooperation of representatives of the Member States and the Commission in the form of a contact committee; whereas, in order to avoid the proliferation of such committees, it is desirable that the said cooperation be achieved by means of the committee provided for in Article 52 of Directive 78/660/EEC; whereas nevertheless, when examining problems concerning insurance undertakings, the committee will be appropriately constituted;

Whereas, in view of the complexity of the matter, the insurance undertakings covered by this Directive must be allowed a longer period than usual to implement the provisions thereof,

HAS ADOPTED THIS DIRECTIVE:

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Section 1

Preliminary provisions and scope

Article 1

1. The provisions of Directive 78/660/EEC shall apply to insurance undertakings within the meaning of Article 2 of this Directive, except where this Directive provides otherwise.

2. Where reference is made in Directive 78/660/EEC to Articles 9 and 10 (balance sheet) or to Articles 23 to 26 (profit and loss account) of that Directive, such references shall be construed as references to Article 5 (balance sheet) or to Article 29 (profit and loss account) of this Directive.

3. Where reference is made in Directive 78/660/EEC to balance sheet items for which this Directive makes no equivalent provision, such references shall be deemed to be references to the items in Article 5 of this Directive which include the assets and liabilities in question.

Article 1

Unchanged

Article 2

The coordination measures prescribed by this Directive shall apply to companies or firms within the meaning of the second paragraph of Article 58 of the Treaty which are:

(a) undertakings within the meaning of Article 1 of Directive 73/239/EEC, excluding those mutual associations which are excluded from the scope of that Directive by virtue of Article 3 thereof but including those institutions referred to in Article 4 thereof except where their activity does not consist wholly or mainly of the carrying-on of insurance business;

or

(b) undertakings within the meaning of Article 1 of Directive 79/267/EEC, excluding those institutions, organizations and mutual associations referred to in Article 2 (2) and (3) and Article 3 of that Directive;

or

(c) undertakings whose whole or main activity consists of reinsurance operations.

Such undertakings are referred to in this Directive as insurance undertakings.

Article 2

(1) The coordination measures prescribed by this Directive shall apply to companies or firms within the meaning of the second paragraph of Article 58 of the Treaty which are:

(a) undertakings within the meaning of Article 1 of Directive 73/239/EEC, excluding those mutual associations which are excluded from the scope of that Directive by virtue of Article 3 thereof but including those institutions referred to in Article 4 thereof except where their activity does not consist wholly or mainly of the carrying-on of insurance business;

or

(b) undertakings within the meaning of Article 1 of Directive 79/267/EEC, excluding those institutions, organizations and mutual associations referred to in Article 2 (2) and (3) and Article 3 of that Directive;

or

(c) undertakings carrying on reinsurance operations.

Such undertakings are referred to in this Directive as insurance undertakings.

(2) The provisions applicable to undertakings referred to in paragraph 1 b) shall apply by analogy to the annual accounts of undertakings writing separately health insurance, exclusively or principally according to the technical principles of life insurance.

Article 3	Article 3
1. This Directive shall apply to the association of underwriters known as Lloyd's with such adaptations as are necessary to take account of the particular nature and structure of Lloyd's.	1. This Directive shall apply to the association of underwriters known as Lloyd's with such adaptations as are necessary to take account of the particular nature and structure of Lloyd's. For the purposes of this Directive, Lloyd's shall be considered to be an insurance undertaking, although the information relating to the syndicates of Lloyd's must meet certain requirements in accordance with the objectives of this Directive.
2. The Commission shall submit to the Council, not later than ..., a report on the adaptations made under paragraph 1.	Unchanged

Section 2

General provisions concerning the balance sheet and the profit and loss account

Article 4	Article 4
Article 4 (2) of Directive 78/660/EEC shall not apply to insurance undertakings	Articles 4 (2) and 5 of Directive 78/660/EEC shall not apply to insurance undertakings.

Section 3

Layout of the balance sheet

Article 5

The Member States shall prescribe the following layout for the balance sheet:

Assets

A. Subscribed capital unpaid

of which there has been called (unless national law provides that called-up capital be shown under 'Liabilities'. In that case, the part of the capital called but not yet paid must appear as an asset either under A or under D.4)

Intangible assets

as described under assets headings B and C.I of Article 9 of Directive 78/660/EEC, showing separately:

- formation expenses, as defined by national law and in so far as national law permits their being shown as an asset

  (unless national law requires their disclosure in the notes on the accounts),
- goodwill, to the extent that it was acquired for valuable consideration (unless national law requires its disclosure in the notes on the accounts)

Investments

I. Land and buildings:

- showing separately land and buildings occupied by the insurance undertaking for its own activities

II. Investments in affiliated undertakings and participating interests:

1. Shares in affiliated undertakings
2. Debt securities issued by, and loans to, affiliated undertakings

Article 5

The Member States shall prescribe the following layout for the balance sheet:

Assets

A. Subscribed capital unpaid

of which there has been called (unless national law provides that called-up capital be shown under 'Liabilities'. In that case, the part of the capital called but not yet paid must appear as an asset either under A or under D.4)

B. Intangible assets

as described under assets headings B and C.I of Article 9 of Directive 78/660/EEC, showing separately:

- **formation and extension expenses, as defined by national law and insofar as** national law permits their being shown as an asset

  (unless national law requires their disclosure in the notes on the accounts),
- goodwill, to the extent that it was acquired for valuable consideration (unless national law requires its disclosure in the notes on the accounts)

C. Investments

I. Land and buildings:

showing separately land and buildings occupied by the insurance undertaking for its own activities (including the apportioned values of land and buildings partly so occupied) unless national law requires their disclosure in the notes on the accounts.

II. Investments in affiliated undertakings and participating interests:

1. Shares in affiliated undertakings
2. Debt securities issued by, and loans to, affiliated undertakings

3. Participating interests
4. Debt securities issued by, and loans to, undertakings with which the insurance undertaking is linked by virtue of a participating interest

III. Other financial investments:

1. Shares and other variable-yield securities
2. Debt securities
3. Loans guaranteed by mortgage
4. Other loans
5. Deposits with credit institutions

IV. Investments for the benefit of life insurance policy holders who bear the investment risk

V. Own shares (with an indication of their nominal value or, in the absence of a nominal value, their accounting par value) to the extent that national law permits their being shown in the balance sheet.

VI. Deposits with cedant undertakings

Debtors

1. Debtors arising out of direct insurance operations, with a separate indication of amounts owed by:
   a) affiliated undertakings
   b) undertakings with which the insurance undertaking is linked by virtue of a participating interest
2. Debtors arising out of reinsurance operations, with a separate indication of amounts owed by:
   a) affiliated undertakings
   b) undertakings with which the insurance undertaking is linked by virtue of a participating interest

3. Participating interests
4. Debt securities issued by, and loans to, undertakings with which the insurance undertaking is linked by virtue of a participating interest

III. Other financial investments:

1. Shares and other variable-yield securities
2. Debt securities
3. Participation in investment pools
4. Loans guaranteed by mortgage
5. Other loans
6. Deposits with credit institutions

IV. Deposits with cedant undertakings

D. Investments for the benefit of life insurance policy holders who bear the investment risk

E. Debtors

For items I, II and III, a separate indication must be given of amounts owned by :

- affiliated undertakings
- undertakings with which the insurance undertaking is linked by virtue of a participating interest

I. Debtors arising out of direct insurance operations

1. Policyholders
2. Agents
3. Other debtors arising out of direct insurance operations

3. Other debtors, with a separate indication of amounts owed by:
   a) affiliated undertakings
   b) undertakings with which the insurance undertaking is linked by virtue of a participating interest.
4. Subscribed capital called but not paid (unless national law provides that called-up capital be shown as an asset under A)

E. Tangible assets and consumables

1. Tangible assets as listed under assets heading C II of Article 9 of Directive 78/660/EEC, other than land and buildings
2. Consumables

F. Cash at bank and in hand

G. Prepayments and accrued income

1. Accrued interest and rent
2. Deferred acquisition costs (distinguishing those arising in non-life and life insurance business)
3. Other prepayments and accrued income

H. Loss for the financial year

(unless national law provides for it to be shown under A.VI under 'Liabilities').

II. Debtors arising out of reinsurance operations

III. Other debtors

IV. Subscribed capital called but not paid (unless national law provides that called-up capital be shown as an asset under A)

F. Other assets

I. Tangible assets as listed under assets heading C II of Article 9 of Directive 78/660/EEC, other than land and buildings

II. Cash at bank and in hand

III. Own shares (with an indication of their nominal value or, in the absence of a nominal value, their accounting par value) to the extent that national law permits their being shown in the balance sheet.

G. Prepayments and accrued income

1. Accrued interest and rent
2. Deferred acquisition costs (distinguishing those arising in non-life and life insurance business)
3. Other prepayments and accrued income

H. Loss for the financial year

(unless national law provides for it to be shown under A.VI under 'Liabilities').

Liabilities

Capital and reserves

I. Subscribed capital
(unless national law provides for called-up capital to be shown under this item. In that case, the amounts of subscribed capital and paid-up capital must be shown separately)

II. Share premium account

III. Revaluation reserve

IV. Reserves

V. Profit or loss brought forward

VI. Profit or loss for the financial year
(unless national law requires that this item be shown under H under 'Assets' or under H under 'Liabilities')

Subordinated liabilities

Technical provisions

1. Unearned premiums (and unexpired risks)
   (a) gross amount ....
   (b) reinsurance amount (−) ....

Life insurance provisions
(a) gross amount ....
(b) reinsurance amount (−) ....
— showing separately the amounts in respect of contracts under which the policy holder bears the investment risk

Claims outstanding
(a) gross amount ....
(b) reinsurance amount (−) ....

Provision for bonuses and rebates

(a) gross amount ....
(b) reinsurance amount (−) ....

Equalization provisions required by national law

Other technical provisions
(a) gross amount ....
(b) reinsurance amount (−) ....

A. *Capital and reserves*

I. Subscribed capital
(unless national law provides for called-up capital to be shown under this item. In that case, the amounts of subscribed capital and paid-up capital must be shown separately)

II. Share premium account

III. Revaluation reserve

IV. Reserves

V. Profit or loss brought forward

VI. Profit or loss for the financial year
(unless national law requires that this item be shown under H under 'Assets' or under H under 'Liabilities')

B. *Subordinated liabilities*

C. *Technical provisions*

1. Unearned premiums (and unexpired risks)
   (a) gross amount ....
   (b) reinsurance amount (−) ....

2. Life insurance provisions
   (a) gross amount ....
   (b) reinsurance amount (−) ....

3. Claims outstanding
   (a) gross amount ....
   (b) reinsurance amount (−) ....

4. Provision for bonuses and rebates unless it is not shown under C 2.
   (a) gross amount ....
   (b) reinsurance amount (−) ....

5. Equalization provisions required by national law

6. Other technical provisions
   (a) gross amount ....
   (b) reinsurance amount (−) ....

Unchanged

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D. *Provisions for other liabilities and charges*

1. Provisions for pensions and similar obligations
2. Provisions for taxation
3. Other provisions

E. *Deposits withheld from reinsurers*

F. *Creditors*
(for each of the following items, a separate indication must be given of amounts owed to:

(a) affiliated undertakings

(b) undertakings with which the insurance undertaking is linked by virtue of a participating interest)

1. Debenture loans, showing convertible loans separately
2. Amounts owed to credit institutions
3. Creditors arising out of direct insurance operations
4. Creditors arising out of reinsurance operations
5. Other creditors, including tax and social security

G. *Accruals and deferred income*

H. *Profit for the financial year*
(unless national law provides for it to be shown under A.VI under 'Liabilities').

Article 6	Article 6
Articles 11, 12, 27, 44, 47 (2) and (3) and 51 (2) of Directive 78/660/EEC shall not apply to insurance undertakings.	Unchanged

Article 7

The provisions of Article 14 of Directive 78/660/EEC shall not apply to those commitments which are taken into account in determining the amount of the technical provisions.

Article 7

The provisions of Article 14 of Directive 78/660/EEC shall not apply to those commitments which are linked to the normal activity of insurance.

SECTION 4

Special provisions relating to certain balance sheet items

Article 8

1. Article 15 (1) and (2) of Directive 78/660/EEC shall not apply to insurance undertakings.

2. The requirements of paragraph 3 of the above-mentioned Article shall apply to each item of B, C and E. 1 under 'Assets' in the layout prescribed in Article 5.

Article 9

Assets: item C.III.2

Debt securities

1. This item shall comprise negotiable fixed-interest debt securities issued by credit institutions, by other undertakings or by public bodies, in so far as they are not appropriate to asset items C.II.2 and C.II.4.

2. Securities carrying interest rates that vary in line with specific factors, for example the interest rate on the inter-bank market or on the Euromarket, shall also be regarded as fixed-interest debt securities.

Article 10

Assets: item C.III.3 and 4

Loans guaranteed by mortgages and other loans

Loans to policy holders for which the policy is the main security shall be included under the heading of 'Other loans' and their amount shall be disclosed in the notes on the accounts. Loans guaranteed by mortgages shall be shown as such even where they are also secured by an insurance policy. Where the amount of 'other loans' not secured by a policy is significant an appropriate breakdown shall be given in the notes on the accounts.

Article 11

Assets: items C.III.5 and F

Deposits with credit institutions

Cash at bank and in hand

'Deposits with credit institutions' comprises amounts the withdrawal of which is subject to a time restriction, whereas sums deposited with no such restriction shall appear under assets item F, even if they bear interest.

Article 8

unchanged

Article 9

unchanged

Article 10

Assets: item C.III. 4 and 5

Loans guaranteed by mortgages and other loans

Loans to policy holders for which the policy is the main security shall be included under the heading of 'Other loans' and their amount shall be disclosed in the notes on the accounts. Loans guaranteed by mortgages shall be shown as such even where they are also secured by an insurance policy. Where the amount of 'other loans' not secured by a policy is significant an appropriate breakdown shall be given in the notes on the accounts.

Article 11

Assets: items C.III. 6 and F II

Deposits with credit institutions

Cash at bank and in hand

'Deposits with credit institutions' comprises amounts the withdrawal of which is subject to a time restriction, whereas sums deposited with no such restriction shall appear under assets item F, even if they bear interest.

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Article 12

Assets: item C.IV

Investments for the benefit of life insurance policy holders who bear the investment risk

Investments for the benefit of life insurance policy holders who bear the investment risk shall comprise the amount of all investments which the insurance undertaking holds by virtue of its commitment under life insurance contracts the benefits of which are expressed by reference to the value of those investments. Pending further harmonization, Member States may however require or permit insurance undertakings to include such investments under the headings where they would appear but for the provisions of this Article. Where use is made of this option the amount of such investments under each of the respective headings shall be separately disclosed.

Article 13

Assets: item C.VI

Deposits with cedant undertakings

In the balance sheet of an undertaking accepting reinsurance, this item shall comprise amounts deposited with, or withheld by, other insurance undertakings under insurance contracts. These amounts may not be merged with other amounts owed by or to the other undertakings in question.

Securities deposited with cedant undertakings which remain the property of the undertaking accepting reinsurance shall not be shown here but under the appropriate heading for the type of asset in question.

Article 14

Assets: item G.1

Accrued interest and rent

Accrued interc. and rent shall comprise those items that represent interest and rent that have been earned up to the date of the balance sheet but have not yet become receivable.

Article 12

Assets: item D

Investments for the benefit of life insurance policy holders who bear the investment risk

Investments for the benefit of life insurance policy holders who bear the investment risk shall comprise the amount of all investments which the insurance undertaking holds by virtue of its commitment under life insurance contracts the benefits of which are expressed by reference to the value of those investments.

Article 13

Assets: item C IV

Deposits with cedant undertakings

In the balance sheet of an undertaking accepting reinsurance, this item shall comprise amounts deposited with, or withheld by, other insurance undertakings under insurance contracts. These amounts may not be merged with other amounts owed by or to the other undertakings in question.

Securities deposited with cedant undertakings which remain the property of the undertaking accepting reinsurance shall not be shown here but under the appropriate heading for the type of asset in question.

Article 14

unchanged

Article 15

Assets: item G.2

Deferred acquisition costs

Deferred acquisition costs shall comprise the amount of expenditure incurred on the acquisition of insurance business premium income which relates to a subsequent financial year or years having regard to the period to which the individual contract relates. Member States may prohibit the deferral of such amounts in life insurance business; any such prohibition must be disclosed in the notes on the accounts.

Where the zillmerization of life insurance contracts results in a negative amount in respect of particular contracts the total of such negative amounts shall be included in deferred acquisition costs and disclosed in the notes on the accounts.

Article 15

Assets: item G.2

Deferred acquisition costs

(1) Deferred acquisition costs shall comprise the amount of expenditure incurred on the acquisition of insurance business premium income which relates to a subsequent financial year or years having regard to the period to which the individual contract relates.

(2) Member States may prohibit the deferral of such amounts in life insurance business; any such prohibition must be disclosed in the notes on the accounts.

Where the zillmerization of life insurance contracts results in a negative amount in respect of particular contracts the total of such negative amounts shall be included in deferred acquisition costs and disclosed in the notes on the accounts.

Where the deferred acquisition costs of life insurance contracts is computed seperately from the life insurance provision and exceeds the said provision the excess shall be disclosed in the notes to the accounts.

Article 16

Liabilities: item A.I

Subscribed capital

This item shall comprise all amounts, irrespective of their actual designations, which, in accordance with the legal structure of an insurance undertaking, are regarded under the national law of the Member State concerned as equity capital subscribed by the share-holders or other proprietors.

Article 16

Liabilities: item A.I

Subscribed capital

This item shall comprise all amounts, irrespective of their actual designations, which, in accordance with the legal structure of an insurance undertaking, are regarded under the national law of the Member State concerned as equity capital subscribed by the share-holders or other <u>persons</u>.

Article 17

Liabilities: item A.IV

Reserves

Reserves shall comprise all the types of reserves listed in Article 9 of Directive 78/660/EEC under 'Liabilities' A.IV, as defined therein. The Member States may also require other types of reserves if necessary for insurance undertakings the legal structures of which are not covered by Directive 78/660/EEC.

These reserves shall be shown separately, as sub-items to 'Liabilities' item A.IV, in the balance sheets of the insurance undertakings concerned, except for the revaluation reserve, which is shown under 'Liabilities' item A.III.

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Article 17

Liabilities: item A.IV

Reserves

Reserves shall comprise all the types of reserves listed in Article 9 of Directive 78/660/EEC under 'Liabilities' A.IV, as defined therein. The Member States may also require other types of reserves if necessary for insurance undertakings the legal structures of which are not covered by Directive 78/660/EEC.

Reserves shall be shown separately, as sub-items to 'Liabilities' item A.IV, in the balance sheets of the insurance undertakings concerned, except for the revaluation reserve, which is shown under 'Liabilities' item A.III.

Liabilities: item B

Subordinated liabilities

Where it has been contractually agreed that, in the event of winding up or of bankruptcy, liabilities, whether or not represented by certificates, are to be repaid only after the claims of all other creditors have been met, the liabilities in question shall be shown under 'Liabilities' item B.

unchanged

Article 19

Liabilities: item C

Technical provisions

Article 20 of Directive 78/660 EEC shall not apply to the technical provisions disclosed under 'Liabilities' item C.

Article 19

unchanged

Article 20

Liabilities: item C

Reinsurance amount (deduction)

The reinsurance amounts shall be determined in accordance with the stipulations of the reinsurance contracts.

Article 20

unchanged

Article 21

Liabilities: item C.1

Unearned premiums

Unearned premiums shall comprise the amount representing that part of gross premiums written which is to be allocated to a subsequent financial year or subsequent financial years. In the case of life insurance Member States may, pending further harmonization, permit or require the unearned premiums to be included in the life insurance provisions.

Article 21

unchanged

Article 22

Liabilities: item C.6 (or C.1)

Unexpired risks

Unexpired risks shall comprise the amount set aside in addition to unearned premiums in respect of risks to be borne by the insurance undertaking after the end of the financial year, in order to provide for all claims and expenses in connection with insurance contracts in force in excess of the related unearned premiums and any premiums receivable on those contracts. The amount

Article 22

unchanged

provided for unexpired risks shall be included in the amount for 'other technical provisions' at 'Liabilities' item C.6, unless national legislation provides that it shall be added to unearned premiums as defined in Article 21 and included in the amount disclosed at 'Liabilities' item C.1, in which case the description of that item shall be 'unearned premiums and unexpired risks'. In either case, where the amount of unexpired risks is material it shall be separately disclosed either in the balance sheet or in the notes on the accounts.

Article 23

Article 23

unchanged

Liabilities: item C.2

Life insurance provisions

The life insurance provisions shall comprise the actuarially estimated value of the liabilities net of future premiums in respect of life direct insurance and reinsurance contracts. Negative amounts resulting from the zillmerization of life insurance provisions shall be disclosed in accordance with the provisions of Article 15.

Article 24

Article 24

unchanged

Liabilities: item C.3

Claims outstanding

1. The provision for claims outstanding shall be the total estimated ultimate cost to the insurance undertaking of settling all claims arising from events which have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims.

2. The provision created through the application of Methods 1 or 2 described in Article 40 (1) shall be included in the provision for claims outstanding. The amount so included shall be disclosed in the notes on the accounts.

Article 25

Article 25

unchanged

Liabilities: item C.4

Provision for bonuses and rebates

The provision for bonuses and rebates shall comprise amounts intended for policy holders and other insured parties by way of bonuses and rebates as defined in Article 34 to the extent that such amounts have not been attributed to individual policy holders or other insured parties through inclusion in the life insurance technical provisions shown under 'Liabilities' item C.2 or otherwise.

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Article 26

Liabilities: item C.5

Equalization provisions required by national law

The amount shown under 'Liabilities' item C.5 shall comprise any amounts set aside in compliance with legal provisions to equalize fluctuations in loss ratios in the coming years. Amounts set aside for similar purposes other than by virtue of a legal requirement shall be separately disclosed under 'Liabilities' item A.IV. Member States may however permit or require them to be included in 'other technical provisions' at 'Liabilities' item C.6, in which event their amount shall be disclosed in the notes on the accounts if it is material.

Article 26

Liabilities: item C.5

Equalization provisions required by national law

(1) The amount shown under 'Liabilities' item C.5 shall comprise any amounts set aside in compliance with legal or statutory provisions to equalize fluctuations in loss ratios in the coming years. The provisions set up for a similar purpose for special risks should also figure amongst these equalization provisions.

(2) **Amounts not set aside for equalizing fluctuations in loss ratios by virtue of a legal requirement shall be separately disclosed under 'liabilities'** item A IV. Member States may however permit or require them to be included in "other technical provisions" at 'Liabilities' item C 6 in which event their amount shall be disclosed in the notes on the accounts if it is material.

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Article 27

Liabilities: item E

Deposits withheld from reinsurers

In the balance sheet of an undertaking ceding reinsurance, this item shall comprise amounts deposited by, or withheld from, other insurance undertakings under reinsurance contracts. These amounts may not be merged with other amounts owed to or by the other undertakings in question.

Where the undertaking ceding reinsurance has received as a deposit securities which have been transferred to its ownership, this item shall comprise the amount owed by the cedant undertaking by virtue of the deposit.

Article 27

unchanged

Section 5

Layout of the profit and loss account

Article 28

1. The Member States shall prescribe the layout provided in Article 29 for the profit and loss account.

2. The technical account for non-life-insurance business is to be used for those classes of direct insurance which are within the scope of Directive 73/239/EEC and for the corresponding classes of reinsurance business.

3. The technical account for life insurance business is to be used for those classes of direct insurance which are within the scope of Directive 79/267/EEC and for the corresponding classes of reinsurance business.

Article 28

1. The Member States shall prescribe the layout provided in Article 29 for the profit and loss account.

2. The technical account for non-life-insurance business is to be used for those classes of direct insurance which are within the scope of Directive 73/239/EEC and for the corresponding classes of reinsurance business.

3. The technical account for life insurance business is to be used for those classes of direct insurance which are within the scope of Directive 79/267/EEC and for the corresponding classes of reinsurance business.

4. Member States may allow or require undertakings whose activity consists wholly or principally of reinsurance to use the technical account for non-life insurance business for all their business. This shall also apply to undertakings writing direct non-life insurance only and also reinsurance.

Article 29

Profit and loss account

I. Technical account - Non-life-insurance business	I. Technical account - Non-life-insurance business
1. Premiums:	1. Premiums:
a) gross premiums written	a) gross premiums written
b) outgoing reinsurance premiums (-)	b) outgoing reinsurance premiums (-)
c) change in provision for unearned premiums, net of reinsurance (+ or -)	c) change in provision for unearned premiums, and insofar as national legislation authorizes, the entry of this provision in liabilities under C 1, the unexpired risks provision (+ or -), net of reinsurance
d) earned premiums (result of a), b) and c))	d) earned premiums (result of a), b) and c))
2. Other technical income	2. Other technical income, net of reinsurance
	3. Allocated investment return (+) (III (8))
3. Claims incurred:	4. Claims incurred:
a) gross claims paid	a) claims paid aa) gross amount bb) amounts recoverable from reinsurers (-) cc) net amount (result of aa) and bb))
b) amounts recoverable from reinsurers (-)	
c) change in provision for claims, net of reinsurance (+ or -)	b) change in provision for claims, net of reinsurance (+ or -)
d) net claims incurred (result of a), b) and c))	c) net claims incurred (result of a) and b))
4. Changes in other technical provisions, net of reinsurance:	5. Changes in other technical provisions, net of reinsurance:
a) change in unexpired risks provision (+ or -)	a) change in unexpired risks provisions (unless it is included under 1 c) (+ or -)
b) changes in other technical provisions (not shown under other headings) (+ or -)	b) changes in other technical provisions not shown under other headings (+ or -)
c) result of a) and b) (+ or -)	c) result of a) and b) (+ or -)

5. Bonuses and rebates

   a) gross bonuses and rebates

   b) amounts receivable from reinsurers (-)

   c) not bonuses and rebates (a) - b))

6. Commissions and other technical charges:

   a) commissions

   b) administrative expenses

   c) commissions and profit participation from other insurance undertakings (-)

   d) variations in deferred acquisition costs (+ or -)

   e) net amount of commissions and other technical charges (result of a), b), c) and d))

7. Other technical charges, net of reinsurance

8. Subtotal (first technical result)

9. Changes in equalization provisions and reserves:

   a) changes in legally prescribed equalization provisions (+ or -)

   b) changes in other equalization provisions and reserves (+ or -)

   c) result of a) and b)

10. Allocated investment return (+) (III.10)

11. Subtotal second technical result (III.1)

6. Bonuses and rebates, net of reinsurance

   a) Bonuses, net of reinsurance

   b) Rebates, net of reinsurance

7. Operating expenses

   a) Acquisition costs
      thereof: provisions

   b) administrative expenses

   c) Commissions and profit participation from reinsurance undertakings (-)

   d) variations in deferred acquisition costs (+ or -)

   e) Operation expenses, net of reinsurance (result of a), b), c) and d))

8. Other technical charges, net of reinsurance

9. Subtotal (first technical result)

10. Changes in equalization provisions and reserves

    a) changes in legally or statutorily prescribed equalization provisions (+ or -)

    b) changes in other equalization provisions and reserves (+ or -)

    c) result of a) and b)

11. Subtotal (second technical result) (III.1)

II. Technical account - Life insurance business

1. Premiums:
   - a) gross premiums written
   - b) outgoing reinsurance premiums (-)
   - c) change in provisions for unearned premiums, net of reinsurance (+ or -)
   - d) earned premiums (result of a), b) and c))

2. Income from participating interests, with a separate indication of that derived from affiliated undertakings

3. Income from other investments, with a separate indication of that derived from affiliated undertakings:
   - a) income from land and buildings
   - b) income from other investments
   - c) result of a) and b)

4. Profit on the realization of investments

5. Value adjustments on investments

6. Unrealized gains on investments

7. Other technical income

8. Subtotal: total technical income

Claims incurred
   - a) gross claims paid
   - b) amounts recoverable from reinsurers (-)
   - c) net claims incurred (result of a) and b))

10. Changes in technical provisions, as far as not shown under 1 c)

II. Technical account - Life insurance business

1. Premiums:
   - a) gross premiums written
   - b) outgoing reinsurance premiums (-)
   - c) change in provisions for unearned premiums (+ or -)
   - d) earned premiums (result of a), b) and c))

2. Investment income
   - a) income from participating interest, with a separate indication of that derived from affiliated undertaking
   - b) income from other investments, with a separate indication of that derived from affiliated undertakings
     - aa) income from land and buildings
     - bb) income from other investments
   - c) value adjustments from investments
   - d) profit on the realization of investments

3. Unrealized gains on investment

4. Other technical income

5. Subtotal: total technical income

6. Claims incurred
   - a) claims paid
     - aa) gross amount
     - bb) amount recoverable from reinsurers (-)
     - cc) net amount (result of aa) and bb))
   - b) change in provision for claims, net of reinsurance (+ or -)
   - c) net claims incurred (result of a) and b))

7. Changes in technical provisions, as far as not shown under 1 c) or 6 b)

a) life insurance provision, net of reinsurance (+ or -)

b) other technical provisions, net of reinsurance (+ or -)

11. Bonuses and rebates:

a) gross bonuses and rebates

b) amounts recaivable from reinsurers (-)

c) net bonuses and rebates (a) - b))

12. Commissions and other technical charges:

a) commissions

b) administrative expenses

c) commissions and profit participations from other insurance undertakings (-)

d) variations in deferred acquisition costs (+ or -)

e) net amount of commissions and other technical charges (result of a), b), c) and d))

13. Investment charges:

a) charges, including interest, relating to land and buildings

b) other investment management charges, including interest

14. Losses on the realization of investments

15. Value adjustments on investments

16. Unrealized losses on investments

17. Other technical charges

a) life insurance provision, net of reinsurance (+ or -)

b) other technical provisions, net of reinsurance (+ or -)

8. Bonuses and rebates, net of reinsurance

a) Bonuses, net of reinsurance

b) Rebates, net of reinsurance

9. Operating expenses

a) acquisition costs (thereof provisions)

b) administrative expenses

c) commissions and profit participation from reinsurance undertakings (-)

d) variations in deferred acquisition costs (+ or -)

e) operating expenses, net of reinsurance (result of a), b), c) and d))

10. Investment charges:

a) charges, including interest, relating to land and buildings

b) other investment management charges, including interest

c) value adjustments on investments

d) losses on the realization of investments

11. Unrealized losses on investments

12. Other technical charges

18. Subtotal: total technical charges

19. Subtotal (first technical result)

20. Allocated investment return (-) (III.9)

21. Subtotal (second technical result) (III.2)

13. Allocated investment return transferred to the non-technical account (III.5) (-)

14. Subtotal: technical result (III.2)

III. Non-technical account

1. Result of technical account - non-life insurance business (I 11)

2. Result of technical account - life insurance business (II 21)

3. Income from participating interests, apart from that shows in the technical account, with a separate indication of that derived from affiliated undertakings

4. Income from other investments, with a separate indication of that derived from affiliated undertakings:

   a) income from land and buildings

   b) income from other investments

5. Value adjustments on investments (+ or -)

6. Investment charges:

   a) charges, including interest, related to land and buildings

   b) other investment management charges, including interest

7. Profits on the realization of investments

8. Losses on the realization of investments

9. Allocated investment return transferred from life insurance technical account (II.20) (+)

10. Allocated investment return transferred to non-life-insurance technical account (I.10) (-)

11. Non-investment income

12. Non-investment charges, including

13. Tax on profit or loss on ordinary activities

III. Non-technical account

1. Result of technical account - non-life insurance business (I 11)

2. Result of technical account - life insurance business (II 14)

3. Income from investment

   a) income from participating interests, with a separate indication of that derived from affiliated undertakings

   b) income from other investments, with a separate indication of that derived from affiliated undertakings

      aa) income from land and buildings

      bb) income from other investments

   c) value adjustments on investments

   d) profits on the realization of investments

4. Unrealized gains on investments

5. Allocated investment return from II 13 (+)

6. Investment charges:

   a) charges, including interest, relating to land and buildings

   b) other investment management charges, including interest

   c) investment value adjustments

   d) losses on the realization of investments

7. Unrealized losses on investments

8. Allocated investment return (I 3)

9. Other income

10. Other charges, including value adjustments

11. Tax on profit or loss on ordinary activities

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14. Profit or loss on ordinary activities after taxation

15. Extraordinary income

16. Extraordinary charges

17. Extraordinary profit or loss

18. Tax on extraordinary profit or loss

19. Other taxes not shown under the above items

20. Profit or loss for the financial year

12. Profit or loss on ordinary activities after taxation

13. Extraordinary income

14. Extraordinary charges

15. Extraordinary profit or loss

16. Tax on extraordinary profit or loss

17. Other taxes not shown under the above items

18. Profit or loss for the financial year

Section 6

Special provisions relating to certain items in the profit and loss account

Article 30

Non-life technical account item I.1 (a)

Life technical account item II.1 (a)

Gross premiums written

1. Article 28 of Directive 78/660/EEC shall not apply to insurance undertakings.

2. Gross premiums written shall comprise all amounts received and receivable in respect of insurance contracts issued by or on behalf of the insurance undertaking, including:

   a) single premiums, inclusive of annuity considerations;

   b) additions to premiums in the case of semi-annual, quarterly or monthly payments and recoveries from policy holders of expenses borne by the company;

   c) in the case of coinsurance, the insurance undertakings's portion of total premiums (excluding premiums to be allocated to coinsurance partners);

Article 30

Non-life technical account item I.1 (a)

Life technical account item II.1 (a)

Gross premiums written

1. Article 28 of Directive 78/660/EEC shall not apply to insurance undertakings.

2. Gross premiums written shall comprise all amounts received and receivable in respect of insurance contracts issued by or on behalf of the insurance undertaking, including:

   a) single premiums, inclusive of annuity considerations, also in life insurance single premiums resulting from bonus and rebate provisions insofar as they must be considered as premiums on the basis of contracts and where national legislation prescribes or authorizes their entry under premiums.

   b) additions to premiums in the case of semi-annual, quarterly or monthly payments and recoveries from policy holders of expenses borne by the company;

   c) in the case of coinsurance, the insurance undertakings's portion of total premiums (excluding premiums to be allocated to coinsurance partners);

d) reinsurance premiums in respect of business acquired from ceding companies;

after deduction of cancellations and of taxes and parafiscal contributions or levies charged by reference to the amount of individual premiums or the volume of premiums.

d) reinsurance premiums in respect of business acquired from ceding companies;

after deduction of cancellations and of taxes and parafiscal contributions or levies charged by reference to the amount of individual premiums or the volume of premiums.

Article 31

Non-life technical account item I.1 (b)

Life technical account item II.1 (b)

Outgoing reinsurance premiums

Outgoing reinsurance premiums shall comprise all amounts paid and payable in respect of outgoing reinsurance contracts entered into by the insurance undertaking.

Article 31

unchanged

Article 32

Non-life technical account item I.1 (c)

Life technical account item II.1 (c)

Change in provision for unearned premiums, net of reinsurance

The change in the provision for unearned premiums, net of reinsurance, shall comprise the difference between the provision for unearned premiums at the beginning of the financial year and at its end, and shall not include the change in the provision for unexpired risks. Pending further coordination, Member States may in the case of life insurance require or permit the change in unearned premiums to be included in the change in the life insurance provision.

Article 32

unchanged

Article 33

Non-life technical account: item I.3

Life technical account: item II.9

Claims incurred

1. Claims incurred shall comprise all amounts paid and payable, after taking into account provisions made in previous years, in respect of liabilities arising in relation to events occurring up to and including the balance sheet date. The amounts in question include annuities, surrenders, adjustments of claims in respect of previous years still outstanding at the balance sheet date, losses incurred but not reported, external and internal direct and indirect claims settlement costs and entries and withdrawals of loss-provisions to and from ceding insurance undertakings and reinsurers. Amounts received or receivable as a result of obtaining the legal ownership of insured property or acquiring the rights of the policy holder against third parties in connection with the settlement of a claim (salvage and subrogation) shall be deducted. Where such amounts are material they shall be disclosed in the notes on the accounts.

2. Where the amount of adjustments of claims in respect of previous years still outstanding at the balance sheet date is material, it shall be disclosed in the notes on the accounts.

Article 33

Non-life technical account: item I.4

Life technical account: item II.6

Claims incurred

1. Claims incurred shall comprise all amounts paid and payable, after taking into account provisions made in previous years, in respect of liabilities arising in relation to events occurring up to and including the balance sheet date. The amounts in question include annuities, surrenders, adjustments of claims in respect of previous years still outstanding at the balance sheet date, losses incurred but not reported, external and internal direct and indirect claims settlement costs and entries and withdrawals of loss-provisions to and from ceding insurance undertakings and reinsurers. Amounts received or receivable as a result of obtaining the legal ownership of insured property or acquiring the rights of the policy holder against third parties in connection with the settlement of a claim (salvage and subrogation) shall be deducted. Where such amounts are material they shall be disclosed in the notes on the accounts.

2. Where the amount of adjustments of claims in a given class in respect of previous years still outstanding at the balance sheet date is material, it shall be disclosed in the notes on the accounts.

S4

Article 34

Non-life technical account: items I.5

Life technical account: item II.11

Bonuses and rebates

Bonuses shall comprise all amounts chargeable for the financial year which are paid or payable to policy holders and other insured parties or provided for their benefit, including amounts used to increase technical provisions or applied to the reduction of future premiums, to the extent that such amounts represent an allocation of surplus or profit arising on business as a whole or a section of business, after deduction of amounts provided in previous years which are no longer required.

Rebates shall comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

W e material, the amount charged for bonuses and that charged for rebates shall be distinguished in the notes on the accounts.

Article 35

Non-life technical account: item I.6 (a)

Life technical account: item II.12 (a)

Commissions

Commissions shall comprise all amounts paid or payable in respect of insurance contracts which constitute a fee paid, otherwise than by virtue of a contract of employment, for services rendered in respect of business introduced to the insurance undertaking. They include amounts paid to agents and brokers but exclude amounts paid to employees (such as members of the direct sales force) acting in the ordinary course of their service to the undertaking.

Article 36

Non-life technical account: item I.6 (b)

Life technical account: item II.12 (b)

Administrative expenses

Administrative expenses shall include in particular value adjustments on tangible assets other than land and buildings and all staff costs, including commissions paid to employees acting in the ordinary course of their service to the undertaking, with the exception of staff costs incurred in connection with claims settlement and those that are properly charged under investment expenses.

Article 34

Non-life technical account: items I 6

Life technical account: item II 8

Bonuses and rebates

Bonuses shall comprise all amounts chargeable for the financial year which are paid or payable to policy holders and other insured parties or provided for their benefit, including amounts used to increase technical provisions or applied to the reduction of future premiums, to the extent that such amounts represent an allocation of surplus or profit arising on business as a whole or a section of business, after deduction of amounts provided in previous years which are no longer required.

Rebates shall comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

Where material, the amount charged for bonuses and that charged for rebates shall be distinguished in the notes on the accounts.

Article 35

Non-life technical account: item I. 7a)

Life technical account: item II. 9a)

Commissions

Commissions shall comprise all ~~amounts~~ paid or payable for the conclusion of insurance contract which constitute a fee paid, otherwise than by virtue of a contract of employment, for services rendered in respect of business introduced to the insurance undertaking. They include amounts paid to agents and brokers but exclude amounts paid to employees (such as members of the direct sales force) acting in the ordinary course of their service to the undertaking.

Article 36

Non-life technical account: item I. 7b)

Life technical account: item II. 9b)

Administrative expenses

Administrative expenses shall include in particular value adjustments on tangible assets other than land and buildings and all staff costs, including commissions paid to employees acting in the ordinary course of their service to the undertaking, with the exception of staff costs incurred in connection with claims settlement and those that are properly charged under investment expenses.

Article 37

Non-life technical account: item I.10

Non-technical account: item III.10

Allocation of part of investment return to the non-life technical account

Where part of the investment return is allocated to the technical account for non-life-insurance business, the transfer from the non-technical account shall be deducted at item III.10 and added at item I.10. The reason for the allocation and the basis on which it is made must be disclosed in the notes on the accounts.

Article 37

Non-life technical account:item I 3

Non-technical account:item III 8

Allocation of part of investment return to the non-life technical account

(1) Where part of the investment return shown in the non-technical account is allocate to the technical account for non-life insurance, the transfer from the non-technical account shall be deducted at item III 8 and added to item I 3 . The reason for the allocation and the basis on which it is made must be disclosed in the notes on the accounts.

(2) That part of the investment income and charges and of profits and losses on the realization of investments disclosed in technical account for life insurance business which is not used or set aside for the benefit of policyholders and other insured parties may be allocated in whole or in part to the non-technical account, the amount allocated being deducted at item II 13 and added at item III 5. The reason for the allocation and the basis on which it is made must be disclosed in the notes on the accounts.

(3) Member States may fix the methods and the basis for the transfer of allocated returns from one part of the profit and loss account to another.

Article 38

Life technical account: item II

Investment income, etc.

1. In the case of an undertaking carrying on only life insurance business, all investment income and charges and profits and losses on the realization of investments shall be disclosed in the technical account for life insurance business.

2. In the case of an undertaking carrying on both life insurance and non-life insurance business, all investment income and charges and profits and losses on the realization of investments shall to the extent that they are directly connected with the carrying-on of the life insurance business be disclosed in the technical account for life insurance business.

3. That part of the investment income and charges and of profits and losses on the realization of investments disclosed in the technical account for life insurance business which is not used or set aside for the benefit of policy holders and insured parties may be allocated in whole or in part to the non-technical account, the amount allocated being deducted at item II.20 and added at item III.9. The reason for the allocation and the basis on which it is made must be disclosed in the notes on the accounts.

Article 38

Non-Life technical account: item I

Life technical account: item II

Investment income and charges

(1) All income and charges from investments together with profits and losses arising from the realization of investments relating to non-life insurance shall be indicated in the non-technical account

(2) In the case of an undertaking carrying on only life insurance business, all investment income and charges and prof and losses on the realization of investments shall be disclosed in the technical account for life insurance business.

(3) In the case of an undertaking carrying on both life insurance and non-life surance business, all investment income and charges and profits and losses on the realization of investments shall the extent that they are directly connected with the carrying-on of the life insurance business be disclosed the technical account for life insurance business.

(4) Member States may also prescribe or authorize the indication of income and charges from investments together with profits and losses arising from the realization of investments according to their origin, i.e. partly in the technical accounts and partly in the non-technical account depending on the allocation of these amounts to the insureds' or the shareholders' fund.

5.7

Article 39

Life technical account: items II.6 and 16

Unrealized gains and losses in life insurance business

Variations in the amount of the difference between the valuation of investments in accordance with current value and their valuation in accordance with the principle of purchase price or production cost shall be shown at items II.6 and 16 only to the extent that Article 43 (2) applies.

Article 39

Life technical account: items II 3 and 11

Unrealized gains and losses in life insurance business

Variations in the amount of the difference between the valuation of investments in accordance with current value and their valuation in accordance with the principle of purchase price or production cost shall be shown at items II. 3 and 11 only to the extent that Article 43 (2) applies.

SECTION 7

Valuation rules

Article 40

1. Pending further coordination Member States may require or permit the application of the following methods where, owing to the nature of the class or type of insurance in question, information about premiums receivable, claims payable, or both, for the underwriting year is insufficient at the time at which the annual accounts are drawn up to enable accurate estimates to be made.

(1) unchanged

Method 1

The excess of the premiums received over the claims and expenses paid in respect of contracts commencing in the underwriting year forms a technical provision, which in accordance with Article 24 (2) is included in the technical provision for claims outstanding shown in the balance sheet at 'Liabilities' item C 3. The amount of this technical provision is if necessary increased to make it sufficient to meet present and future obligations. No amount in respect of the contracts in question is included in the technical provisions for unearned premiums and unexpired risks referred to respectively in Articles 21 and 22. The technical provision formed in accordance with this method is replaced by a provision for claims outstanding estimated in the usual manner at the end of the year following the underwriting year or at the end of a later year.

Method 2

The rules of Method 1 apply, except that the technical provision referred to in the first sentence of the description of that method is calculated as a particular percentage of the premiums receivable.

Method 3

The figures shown in the whole of the technical account or at certain items within it relate to a year which wholly or partly precedes the financial year.

The amount of the technical provisions shown in the annual accounts is if necessary increased to make them sufficient to meet present and future obligations.

2. Where a method referred to in paragraph 1 is adopted, it shall be applied systematically in successive years unless circumstances justify a change. The use of any such method shall be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effect on the assets, liabilities, financial position and profit or loss, with particular reference to its effect on the provisions for unearned premiums and claims outstanding. Where Methods 1 or 2 are used, the length of time that elapses before a provision for claims outstanding is created on the usual basis shall be disclosed in the notes on the accounts. Where Method 3 is used, the length of time by which the year to which the figures relate precedes the financial year shall be disclosed in the notes on the accounts.

3. Where Methods 1 or 2 are used, a provision for claims outstanding shall be created on the usual basis not later than the end of the third year following the underwriting year. Where Method 3 is used, the length of time by which the year to which the figures relate precedes the financial year shall not exceed 12 months.

4. For the purposes of this Article the expression 'underwriting year' means the financial year in which the insurance contracts in the class or type of insurance in question commenced.

(2) Where a method referred to in paragraph 1 is adopted, it shall be applied systematically in successive years unless circumstances justify a change. The use of any such method shall be disclosed in the notes on the accounts together with an explanation of the reasons for it; in the event of a change of the method applied, its effect on the assets, the financial situation and the profit or loss shall be indicated in the notes on the accounts. Where Methods 1 or 2 are used the length of time that elapses before a provision for claims outstanding is created on the usual basis shall be disclosed in the notes on the accounts. Where method 3 is used, the length of time by which the year to which the figures relate precedes the financial year shall be disclosed in the notes on the accounts.

(3) unchanged

(4) unchanged

Article 41

Article 32 of Directive 78/660/EEC, which provides that the valuation of items shown in the annual accounts shall be based on the principle of purchase price or production cost, shall in its application to investments be subject to Articles 42 to 45 of this Directive.

Article 41

unchanged

Article 42

1. As regards the valuation of investments shown in Article 5 under 'Assets' item C Member States may require or permit insurance undertakings to apply current value calculated in accordance with Articles 44 and 45.

2. Where in life insurance business the benefits provided to policy holders and insured parties are related to the current value of particular investments or investments as a whole, those investments shall be shown in the balance sheet at current value.

3. Where the principle of purchase price or production cost referred to in Article 32 of Directive 78/660/EEC is applied to investments, the current value shall be disclosed in the notes on the accounts.

4. Where investments are shown at current value, the value resulting from the application of the principle of purchase price or production cost shall be disclosed in the notes on the accounts.

5. The same basis shall be applied to all investments included in any item denoted by an arabic number.

6 The method applied to each item of investments shall be disclosed in the notes on the accounts.

Article 42

(1) unchanged

(2) Where in life insurance business the benefits provided to policyholders and other insured parties are <u>directly</u> related to the current value of particular investments or investments as a whole, those investments shall be shown in the balance sheet at current value.

(3) unchanged

(4) unchanged

(5) unchanged

(6) unchanged

Article 43

1. Where current value is applied to investments, Article 33 (2) and (3) of Directive 78/660/EEC shall apply, except as provided in paragraph 2.

2. In the case described in Article 42 (2), the amount of the difference between valuation in accordance with current value and valuation in accordance with the principle of purchase price or production cost shall be entered in the life insurance provisions in Article 5 at 'Liabilities' item C. 2. Variations in this difference shall be disclosed in the technical account for life insurance business at Article 29, items II.6 and 16.

Article 43

1. Where current value is applied to investments, Article 33 (2) and (3) of Directive 78/660/EEC shall apply, except as provided in paragraph 2.

2. In the case described in Article 42 (2), the amount of the difference between valuation in accordance with current value and valuation in accordance with the principle of purchase price or production cost shall be entered in the life insurance provisions in Article 5 at 'Liabilities' item C. 2. Variations in this difference shall be disclosed in the technical account for life insurance business at Article 29, items II 3 and 11.

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Article 44

1. In the case of investments other than land and buildings, current value shall mean market value, save as provided in paragraph 6.

2. Where investments are quoted on a recognized stock exchange, market value shall mean the middle market value on the balance sheet date or on the last day of trading preceding that date.

3. Where an active market exists for investments other than those referred to in paragraph 2, the market value shall mean the average figure at which such investments were traded on the balance sheet date or the last day of trading preceding that date.

4. Where the application of a method referred to in paragraphs 2 and 3 produces a figure for particular investments which, owing to exceptional circumstances at the date in question, is materially higher than the figure which would have been obtained in the absence of those circumstances, the latter figure shall be taken as the market value.

5. Where at the date at which the accounts are drawn up investments referred to in paragraphs 2 or 3 have been sold or there is an intention to sell them within the short term, the market value shall be reduced by the incurred or estimated realization costs.

6. Except where the equity method is applied in accordance with Article 59 of Directive 78/660/EEC, all other investments shall be valued on a basis which has prudent regard to the likely realizable value.

7. In all cases the precise method of valuation and the reason for adopting it shall be disclosed in the notes on the accounts.

Article 44

(1) unchanged

(2) Where investments are quoted on a recognized stock exchange, market value shall mean the market value on the balance sheet date or on the last day of trading preceding that date.

(3) Where a market exists for investments other than those referred to in paragraph 2, the market value shall mean the average figure at which such investments were traded on the balance sheet date or the last day of trading preceding that date.

(4) unchanged

(5) unchanged

(6) unchanged

(7) unchanged

Article 45

1. Except as provided in paragraph 6, current value in the case of land and buildings shall mean the market value determined at the date of valuation, reduced as provided in paragraphs 4 and 5.

2. Market value shall mean the price at which the land and buildings could be sold under private contract between a willing seller and an arm's length buyer at the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale.

3. The market value shall be determined through the separate valuation of each item of land and buildings carried out not less frequently than every five years by persons approved for the purpose by the Member State in which the head office of the insurance undertaking is situated.

4. Where the value of any item of land and buildings has diminished at the balance sheet date, the appropriate value adjustment shall be made. The lower value thus arrived at shall not be increased in subsequent balance sheets unless such increase results from a new determination of market value arrived at in the conditions prescribed in paragraphs 2 and 3.

5. Where at the date at which the accounts are drawn up land and buildings have been sold or there is an intention to sell them within the short term, the value arrived at in accordance with paragraphs 2 and 4 shall be reduced by the incurred or estimated realization costs.

6. Where it is impossible to determine the market value of an item of land and buildings, the value arrived at on the basis of the principle of purchase price or production cost shall be treated as the current value.

7. In all cases the method by which current value has been arrived at and the year or years in which valuations were last carried out in accordance with paragraph 3 shall be disclosed in the notes on the accounts.

Article 45

1. Except as provided in paragraph 6, current value in the case of land and buildings shall mean the market value determined at the date of valuation, reduced as provided in paragraphs 4 and 5.

2. Market value shall mean the price at which the land and buildings could be sold under private contract between a willing seller and an arm's length buyer at the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale.

3. The market value shall be determined through the separate valuation of each item of land and buildings carried out not less frequently than every five years by persons approved for the purpose either by the Member State in which the head office of the undertaking is situated or, where different, by the Member State in which the land and buildings are situated.

4. Where the value of any item of land and buildings has diminished at the balance sheet date, the appropriate value adjustment shall be made. This adjustment may be on the basis of a percentage reduction recommended by persons approved as aforesaid in respect of land and buildings the value of which has diminished since the last valuation by such persons. The lower value thus arrived at shall not be increased in subsequent balance sheets unless such increase results from a new determination of market value arrived at in the conditions prescribed in paragraphs 2 and 3.

5. Where at the date at which the accounts are drawn up land and buildings have been sold or there is an intention to sell them within the short term, the value arrived at in accordance with paragraphs 2 and 4 shall be reduced by the incurred or estimated realization costs.

6. Where it is impossible to determine the market value of an item of land and buildings, the value arrived at on the basis of the principle of purchase price or production cost shall be treated as the current value.

7. In all cases the method by which current value has been arrived at and the year or years in which valuations were last carried out in accordance with paragraph 3 shall be disclosed in the notes on the accounts.

Article 46

1. Article 33 of Directive 78/660/EEC shall apply to insurance undertakings in the following manner :

(a) references to 'tangible fixed assets' shall be construed as references to assets listed under 'Assets' C.II.2,3 and 4 in Article 9 of Directive 78/660/EEC ;

(b) the reference to 'stocks' shall be construed as a reference to assets shown in this Directive at Article 5, 'Assets' item E.2.

2. Subject to Article 43 of this Dirctive, Article 33 of Directive 78/660/EEC shall not apply to investments which are financial fixed assets within the meaning of 'Assets' C.III of Article 9 of Directive 78/660/EEC.

Article 46

(1) Article 33 of Directive 78/660/EEC shall apply to insurance undertakings in the following manner :

a) paragraph 1a) shall apply to assets shown under F I in Article 5 of this Directive.

b) subject to Article 43 of this Directive, Article 33 of Directive 78/660/EEC shall not apply to assets shown under C II, III, IV, D and E III of Article 5 of this Directive.

Article 47

The application of Article 35 of Directive 78/660/EEC to insurance undertakings shall be subject to the following modifications :

(a) references to 'fixed assets' shall be construed as references to assets shown in this Directive at Article 5, 'Assets' items B, C and E.1;

(b) references to 'financial fixed assets' shall be construed as references to assets shown in this Directive at Article 5, 'Assets' items C.II, III, IV, V and VI.

Article 47

The application of Article 35 of Directive 78/660/EEC to insurance undertakings shall be subject to the following modifications :

a) that Article shall apply to assets shown under B, C and F I of Article 5 of this Directive.

b) paragraph 1c) aa) shall apply to assets shown under C II, III, IV, D and F III of Article 5 of this Directive.

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Article 48

n Article 38 of Directive 78/660/EEC the reference to angible fixed assets, raw materials and consumables hall, as regards insurance undertakings, be construed :s a reference to assets shown in this Directive at Article , 'Assets' item E.

Article 48

Article 38 of Directive 78|660|EEC shall apply to assets shown under **F I in Article 5 of this Directive.**

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Article 49

For the application of Article 39 of Directive 78/660/EEC to insurance undertakings the reference to current assets shall be construed as a reference to assets shown in this Directive at Article 5, 'Assets' items D. 1, 2 and 3 and F.

Article 49

Article 39 of Directive 78/660/EEC shall apply to assets shown under E I, II and III and F II of Article 5 of this Directive.

In non-life insurance the amount of deferred acquisition costs shall be established on a basis consistent with that followed for unearned premiums.

unchanged

In life insurance the calculation of the amount of acquisition costs to be deferred may form part of the actuarial calculation referred to in Article 55.

Article 51

Subject to Article 42, debt securities included under Article 5, 'Assets' items C. II and III, shall be shown in the balance sheet at purchase price. The Member States may, however, permit or require debt securities to be shown in the balance sheet at the amount repayable at maturity.

Where the purchase price of such debt securities exceeds the amount repayable at maturity, the amount of the difference must be charged to the profit and loss account. The amount of the difference may however be written off in instalments so that it is completely written off no later than the time of repayment of the debt securities. The difference must be shown separately in the balance sheet or in the notes on the accounts.

Where the purchase price of such debt securities is less than the amount repayable at maturity, the Member States may permit or require the amount of the difference to be released to income in instalments during the period remaining until repayment. The difference must be shown separately in the balance sheet or in the notes on the accounts.

Article 51

unchanged

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Article 52

The amount of technical provisions shall be such as to ensure that all liabilities arising out of insurance contracts can be met by the insurance undertaking.

Article 52

(1) unchanged

(2) For the valuation of technical provisions, the method of the weighted average or other comparable methods may be used.

Article 53

The provision for unearned premiums shall be computed for each individual contract and *pro rata temporis* by reference to the proportion of the period covered by the contract which extends over a period following the end of the financial year. Member States may permit the use of flat-rate methods where they are likely to give approximately the same results as the individual calculations. If the nature of risks is such that the *pro rata temporis* method does not reflect the expected risk experience, appropriate adjustments shall be made.

Article 53

unchanged

Article 54

The provision for unexpired risks shall be computed on the basis of the probable claims arising from events after the end of the financial year from contracts concluded before the date, in so far as they exceed the provision for unearned premiums.

Article 54

unchanged

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Article 55

The life insurance provision shall be computed separately for each insurance contract. Approximate methods may however be used where they are likely to give approximately the same results as the individual calculations. A computation must be made annually under the responsibility of an actuary on the basis of recognized actuarial methods. A summary of the principal assumptions must be disclosed in the notes on the accounts.

Article 55

(1) The life insurance provision shall be computed separately for each insurance contract. Approximate methods may however be used where they are likely to give approximately the same result as the individual calculations. A summary of the principal assumptions must be disclosed in the notes on the accounts.

(2) A computation must be made annually <u>by an external actuary or one employed by the reporting insurance company recognised as such by virtue of Directive 89/48/EEC</u> on the recognition of higher-education diplomas on the basis of recognized actuarial methods.

Article 56

1. The provisions for claims outstanding shall in principle be calculated case by case, but statistical methods may be used if they result in an adequate provision having regard to the nature of the risks. For the calculation of claims incurred but not reported, regard shall be had to past experience and all other relevant factors.

2. External and internal direct and indirect claims settlement costs shall be taken into account when calculating the provision.

. Where in calculating the provision account is taken of estimated amounts receivable as a result of bt: ng the legal ownership of insured property or quiring the rights of the policy holder against third arties in connection with the settlement of a claim alvage and subrogation), a prudent basis shall be lopted. Where such amounts are material they shall disclosed in the notes on the accounts.

Where in non-life insurance benefits resulting om a claim have to be paid in the form of an annuity, amounts to be provided for this purpose shall be culated actuarially and included in the provision for ims outstanding.

5. Where, apart from cases in which the benefits have to be calculated actuarially, a deduction is exceptionally made respect of investment income which may be attributable to the provisions for particular claims because of the expected delay in settlement, such deduction shall be calculated on an actuarial basis. Where such discounting is adopted it must be disclosed in the notes on the accounts together with an explanation of the reasons for it and a statement of its effects on the assets, liabilities, financial position and profit or loss.

Implicit discounting, whether resulting from the placing of a present-day value on a provision for an outstanding claim which is expected to be settled later at a higher figure, or otherwise brought about, is not permissible.

Article 56

(1) unchanged

(2) unchanged

(3) unchanged

(4) Where in non-life insurance benefits resulting from a claim have to be paid in the form of an annuity, the amounts provided for this purpose shall be calculated actuarially under the responsibility of an actuary recognised as such by virtue of Directive 89/48/EEC and included in the provision for claims outstanding.

(5) Apart from cases, in which the benefits have to be calculated actuariall; Member States may authorize that for particular claims, because of the expected delay in settlement, a deduction should be made in respect of investment income. Where such discounting is adopted, it must be made on a actuarial basis and disclosed in the notes on the accounts together with a explanation of the reasons for it and a statement of its effects on the assets, liabilities, financial position and profit or loss.

Implicit discounting, whether resulting from the placing of a present-day value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise brought about, is not permissible.

Pending further coordination those Member States which require the formation of equalization provisions shall prescribe the valuation rules to be applied to them.	unchanged

Article 58

In place of the information required by Article 43 (1) (8) of Directive 78/660/EEC, insurance undertakings shall indicate, in the notes on the accounts, gross premiums within the meaning of Article 30 of this Directive, broken down by categories of activity and into geographical markets as follows:

- as regards non-life insurance, firstly as between direct insurance and acceptances of reinsurance, and then within each of those categories between:
  - — accident and health,
  - — motor,
  - — marine, aviation and transport,
  - — fire and other damage to property,
  - — liability,
  - — credits and suretyship,
  - — legal expenses,
  - — assistance,
  - — miscellaneous,

  except that disclosure under any of these headings is not necessary if it accounts for less than 10% of the non-life gross premiums in direct insurance or in reinsurance respectively;
- as regards life insurance, firstly as between direct insurance and acceptances of reinsurance, if such acceptances amount to at least 10% of total life insurance gross premiums, and then within each of those categories to indicate:
  - — periodic premiums,
  - — single premiums, including annuity considerations,
  - — premiums under group contracts,
  - — premiums for contracts under which the policy holders bear the investment risk

  except that disclosure under any of these headings is not necessary if it accounts for less than 10% of the life gross premiums in direct insurance or in reinsurance respectively;

Article 58

1. In place of the information required by Article 43 (1) (8) of Directive 78/660/EEC, insurance undertakings shall indicate, in the notes on the accounts, gross premiums within the meaning of Article 30 of this Directive, broken down by categories of activity and into geographical markets as follows:

- as regards direct non-life insurance, firstly as between direct insurance and acceptances of reinsurance, and then within the former of these categories between:
  - accident and health,
  - — motor,
  - — marine, aviation and transport,
  - — fire and other damage to property,
  - — liability,
  - — credits and suretyship,
  - — legal expenses,
  - — assistance,
  - — miscellaneous,

  except that disclosure under any of these headings is not necessary if it accounts for less than 10% of the non-life gross premiums in direct insurance or in reinsurance respectively;
- as regards life insurance, firstly as between direct insurance and acceptances of reinsurance, if such acceptances amount to at least 10% of total life insurance gross premiums, and then within the former of those categories to indicate:
  - — periodic premiums,
  - — single premiums, including annuity considerations,
  - — premiums under group contracts,
  - — premiums for contracts under which the policy holders bear the investment risk

  except that disclosure under any of these headings is not necessary if it accounts for less than 10% of the life gross premiums in direct insurance or in reinsurance respectively;

as regards both non-life and life insurance, the total gross premiums resulting from contracts concluded by the insurance undertaking in each Member State or other country in which it has an establishment (head office, branch or agency), except that such disclosure is not necessary where the figure for any particular Member State or other country accounts for less than 5 % of the total gross premiums.

2. The reference in Article 43 (1) (10) of Directive 78/660/EEC to Articles 31 and 34 to 42 thereof shall be construed as a reference to those Articles as modified for the purposes of their application to insurance undertakings by the provisions of this Directive.

3. Insurance undertakings shall indicate, in the notes on the accounts, assets shown respectively under items C.III.1 (shares) and C.III.2 (debt securities) of Article 5 broken down between quoted and unquoted investments.

— as regards both non-life and life insurance, the total gross premiums resulting from contracts concluded by the insurance undertaking in each Member State or other country in which it has an establishment (head office, branch or agency), except that such disclosure is not necessary where the figure for any particular Member State or other country accounts for less than 5 % of the total gross premiums. For reinsurance acceptances, this breakdown shall be undertaken on the basis of the ceding undertaking's head office.

(2) With regard to reinsurance acceptances, the breakdown of gross premiums per category in accordance with paragraph 1 shall be undertak separately for non-life insurance and for life insurance when the undertaking operates in both categories but must establish only one single technical account.

(3) The reference in Article 43 (1) (10) of Directive 78|660|EEC to Articles 31 and 34 to 42 thereof shall be construed as a reference to those Articles as **amended**, for the purposes of their application to insurance undertakings **by this Directive.**

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SECTION 9

Provisions relating to consolidated accounts

Article 59

1. Insurance undertakings shall draw up consolidated accounts and a consolidated annual report in accordance with Directive 83/349/EEC, in so far as this section does not provide otherwise.

2. In so far as a Member State does not make use of Article 5 of Directive 83/349/EEC, paragraph 1 shall also apply to parent undertakings the sole object of which is to acquire holdings and turn them to profit, where those subsidiary undertakings are either exclusively or mainly insurance underakings.

Article 59

(1) unchanged

(2) In so far as a Member State does not make use of Article 5 of Directive 83/349/EEC; paragraph 1 shall also apply to parent undertakings, the sole and essential object of which is to acquire holdings and turn them to profit where those subsidiary undertakings are either exclusively or mainly insurance undertakings.

Article 60

Directive 83/349/EEC shall apply subject to the following provisions:

1. Articles 4, 6, 15 and 40 shall not apply;

2. The information referred to in the first two indents of Article 9 (2), namely:

   - the amount of the fixed assets, and

   - net turnover

   shall be replaced by "Gross premiums written" as defined in Article 30 of this Directive.

3. For the purposes of the layout of consolidated accounts, the reference in Article 17 to Articles 9 and 10 (balance sheet) and 23 to 26 (profit and loss account) of Directive 78/660/EEC shall be deemed to be a reference to Articles 5 (balance sheet) and 29 (profit and loss account) of this Directive. Articles 4, 7 to 27, 28 and 30 to 39 of this Directive shall also apply.

Article 60

Directive 83/349/EEC shall apply subject to the following provisions:

1. Articles 4, 6, 15 and 40 shall not apply;

2. The information referred to in the first two indents of Article 9 (2), namely:

   - the amount of the fixed assets, and

   - net turnover

   shall be replaced by "Gross premiums written" as defined in Article 30 of this Directive.

3. Article 18 is applicable except that in the consolidated accounts technical provisions need not be set up where such provisions are not set up under the legislation applicable to the subsidiary.

   Exceptions from the balance sheet and valuation methods applicable to the consolidated accounts are to be disclosed and explained in the notes on the consolidated accounts.

4. For the purposes of the layout of consolidated accounts, the reference in Article 17 to Articles 9 and 10 (balance sheet) and 23 to 26 (profit and loss account) of Directive 78/660/EEC shall be deemed to be a reference to Articles 5 (balance sheet) and 29 (profit and loss account) of this Directive. Articles 4, 7 to 27, 28 and 30 to 39 of this Directive shall also apply.

5. Article 26 (1) (b) shall not apply to the consolidated accounts where the underlying transaction has been concluded according to normal market conditions and the income is allocated to the provision for bonuses and rebates; this does not apply to transactions relating to reinsurance. Exceptions to the principle of income and expenditure consolidation are to be disclosed in the

4. For the purposes of valuing assets and liabilities to be included in consolidated accounts, the reference in Articles 29 and 33 to Articles 31 to 42 and 60 of Directive 78/660/EEC shall be deemed to be a reference to those Articles as amended in their application by Articles 40 to 57 of this Directive.

5. Article 34 shall apply in respect of the contents of the notes on consolidated accounts, suject to article 58 of this Directive.

notes and are to be explained where there is a material effect on the assets, liabilities, financial position and profit and loss of all the undertakings included in the consolidation.

6. Where a reinsurance undertaking is included in the consolidation and because of that fact there is a period of more than three months between the consolidated balance sheet date and the balance sheet date of other undertakings, Article 27 (3) shall apply except that in this case the balance sheet date of an undertaking included in the consolidation shall not precede the consolidated balance sheet date by more than six months.

7. For the purposes of valuing assets and liabilities to be included in consolidated accounts, the reference in Articles 29 and 33 to Articles 31 to 42 and 60 of Directive 78/660/EEC shall be deemed to be a reference to those Articles as amended in their application by Articles 40 to 57 of this Directive.

Notwithstanding Article 29, values attributed to items listed under liabilities heading C of Article 5 and calculated on calculation bases differing from those used for the consolidation can be maintained; the use of this provision shall be disclosed in the notes on the consolidated accounts.

8. Article 34 shall apply in respect of the contents of the notes on consolidated accounts, subject to Article 58 of this Directive.

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SECTION 10

Publication

Article 61

1. The duly approved annual accounts of insurance undertakings, together with the annual reports and the opinion of the persons responsible for auditing the accounts shall be published as laid down by the laws of each Member State in accordance with Article 3 of First Council Directive 68/151/EEC of 9 March 1968 on coordination of safeguards which for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community ([1]).

The laws of a Member State may, however, permit the annual report not to be published as stipulated above. In that case, it shall be made available to the public at the company's registered office in the Member State concerned. It must be possible to obtain a copy of all or part of any such report upon request. The price of such a copy must not exceed its administrative cost.

2. Paragraph 1 shall also apply to the duly approved consolidated accounts, the consolidated annual reports and the opinions submitted by the persons responsible for auditing the accounts.

3. Where an insurance undertaking which has drawn up annual accounts or consolidated accounts is not established as one of the types of company listed in Article 1 (1) of Directive 78/660/EEC and is not required by its national law to publish the documents referred to in paragraphs 1 and 2 as prescribed in Article 3 of Directive 68/151/EEC, it must at least make them available to the public at its registered office. It must be possible to obtain copies of such documents on request. The price of such copies must not exceed their administrative cost.

4. Member States shall provide for appropriate sanctions for failure to comply with the publication rules laid down in this Article.

Article 61

unchanged

(1) OJ No L 65, 14.3.1968, p. 8.

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SECTION 11

Final provisions

Article 62	Article 62
The Contact Committee established in accordance with Article 52 of Directive 78/660/EEC shall, when constituted appropriately, also have the following functions:	unchanged
(a) to facilitate, without prejudice to Articles 169 and 170 of the Treaty, harmonized application of this Directive through regular meetings dealing in particular with practical problems arising in connection with its application;	
(b) to advise the Commission, if necessary, on additions or amendments to this Directive.	
Article 63	Article 63
1. Member States shall bring into force the laws, regulations and administrative provisions necessary for them to comply with this Directive before 1 January ... They shall forthwith inform the Commission thereof.	unchanged
2. A Member State may provide that the provisions referred to in paragraph 1 above shall first apply to annual accounts and consolidated accounts for financial years beginning on 1 January ... or during the calendar year	
3. Member States shall ensure that they communicate to the Commission the texts of the main provisions of national law which they adopt in the field covered by this Directive.	
Article 64	Article 64
This Directive is addressed to the Member States.	unchanged

Done at

For the Council

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