SCHEDULE 1

Form and Content of Accounts of Insurance Companies and Groups

PART I

Individual Accounts

Chapter II

Accounting Principles and Rules

Section A

Accounting Principles

Preliminary

13. Subject to paragraph 19 below, the amounts to be included in respect of all items shown in a company's accounts shall be determined in accordance with the principles set out in paragraphs 14 to 18 below.

Accounting principles

14. The company shall be presumed to be carrying on business as a going concern.

15. Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.

16. The amount of any item shall be determined on a prudent basis, and in particular —

(a) subject to note (9) on the profit and loss account format, only profits realised at the balance sheet date shall be included in the profit and loss account; and

(b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of section 233 of this Act.

17. All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

18. In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately.

Departure from accounting principles

19. If it appears to the directors of a company that there are special reasons for departing from any of the principles stated above in preparing the company's accounts in respect of any financial year they may do so, but particulars of the departure, the reasons for it and its effect shall be given in a note to the accounts.

Section B

Current Value Accounting Rules

Preliminary

20. Subject to paragraphs 27 to 29 below—

(a) the amounts to be included in respect of assets of any description mentioned in paragraph 22 below shall be determined in accordance with that paragraph; and

(b) subject to paragraph 21 below, the amounts to be included in respect of assets of any description mentioned in paragraph 23 below may be determined in accordance with that paragraph or the rules set out in paragraphs 30 to 41 below ("the historical cost accounting rules").

21. The same valuation method shall be applied to all investments included in any item in the balance sheet format which is denoted by an arabic number.

Valuation of assets: general

22.—(1) Subject to paragraph 24 below, investments falling to be included under Assets item C (investments) shall be included at their current value calculated in accordance with paragraphs 25 and 26 below.

(2) Investments falling to be included under Assets item D (assets held to cover linked liabilities) shall be shown at their current value calculated in accordance with paragraphs 25 and 26 below.

23.—(1) Intangible assets other than goodwill may be shown at their current cost.

(2) Assets falling to be included under Assets items F.I (tangible assets) and F.IV (own shares) in the balance sheet format may be shown at their current value calculated in accordance with paragraphs 25 and 26 below or at their current cost.

(3) Assets falling to be included under Assets item F.II (stocks) may be shown at current cost.

Alternative valuation of fixed-income securities

24.—(1) This paragraph applies to debt securities and other fixed-income securities shown as assets under Assets items C.II (investments in group undertakings and participating interests) and C.III (other financial investments).

(2) Securities to which this paragraph applies may either be valued in accordance with paragraph 22 above or their amortised value may be shown in the balance sheet, in which case the provisions of this paragraph apply.

(3) Subject to sub-paragraph (4) below, where the purchase price of securities to which this paragraph applies exceeds the amount repayable at maturity, the amount of the difference —

(a) shall be charged to the profit and loss account, and

(b) shall be shown separately in the balance sheet or in the notes to the accounts.

(4) The amount of the difference referred to in sub-paragraph (3) above may be written off in instalments so that it is completely written off when the securities are repaid, in which case there shall be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (less the aggregate amount written off) and the amount repayable at maturity.

(5) Where the purchase price of securities to which this paragraph applies is less than the amount repayable at maturity, the amount of the difference shall be released to income in instalments over the period remaining until repayment, in which case there shall be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (plus the aggregate amount released to income) and the amount repayable at maturity.

(6) Both the purchase price and the current value of securities valued in accordance with this paragraph shall be disclosed in the notes to the accounts.

(7) Where securities to which this paragraph applies which are not valued in accordance with paragraph 22 above are sold before maturity, and the proceeds are used to purchase other securities to which this paragraph applies, the difference between the proceeds of sale and their book value may be spread uniformly over the period remaining until the maturity of the original investment.

Meaning of "current value"

25.—(1) Subject to sub-paragraph (5) below, in the case of investments other than land and buildings, current value shall mean market value determined in accordance with this paragraph.

(2) In the case of listed investments, market value shall mean the value on the balance sheet date or, when the balance sheet date is not a stock exchange trading day, on the last stock exchange trading day before that date.

(3) Where a market exists for unlisted investments, market value shall mean the average price at which such investments were traded on the balance sheet date or, when the balance sheet date is not a trading day, on the last trading day before that date.

(4) Where, on the date on which the accounts are drawn up, listed or unlisted investments have been sold or are to be sold within the short term, the market value shall be reduced by the actual or estimated realisation costs.

(5) Except where the equity method of accounting is applied, all investments other than those referred to in sub-paragraphs (2) and (3) above shall be valued on a basis which has prudent regard to the likely realisable value.

26.—(1) In the case of land and buildings, current value shall mean the market value on the date of valuation, where relevant reduced as provided in sub-paragraphs (4) and (5) below.

(2) Market value shall mean the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on 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 land and buildings item, carried out at least every five years in accordance with generally recognised methods of valuation.

(4) Where the value of any land and buildings item has diminished since the preceding valuation under sub-paragraph (3), an appropriate value adjustment shall be made.

(5) The lower value arrived at under sub-paragraph (4) shall not be increased in subsequent balance sheets unless such increase results from a new determination of market value arrived at in accordance with sub-paragraphs (2) and (3).

(6) Where, on the date on which the accounts are drawn up, land and buildings have been sold or are to be sold within the short term, the value arrived at in accordance with sub-paragraphs (2) and (4) shall be reduced by the actual or estimated realisation costs.

(7) Where it is impossible to determine the market value of a land and buildings item, the value arrived at on the basis of the principle of purchase price or production cost shall be deemed to be its current value.

Application of the depreciation rules

27.—(1) Where—

(a) the value of any asset of a company is determined in accordance with paragraph 22 or 23 above, and

(b) in the case of a determination under paragraph 22 above, the asset falls to be included under Assets item C.I,

that value shall be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its cost or any value previously so determined for that asset; and paragraphs 31 to 35 and 37 below shall apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset in accordance with paragraph 22 or 23 above (as the case may be).

(2) The amount of any provision for depreciation required in the case of any asset by paragraph 32 or 33 below as it applies by virtue of sub-paragraph (1) is referred to below in this paragraph as the "adjusted amount", and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the "historical cost amount".

(3) Where sub-paragraph (1) applies in the case of any asset the amount of any provision for depreciation in respect of that asset included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

Additional information to be provided

28.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined in accordance with paragraph 22 or 23 above.

(2) The items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in a note to the accounts.

(3) The purchase price of investments valued in accordance with paragraph 22 above shall be disclosed in the notes to the accounts.

(4) In the case of each balance sheet item valued in accordance with paragraph 23 above either —

(a) the comparable amounts determined according to the historical cost accounting rules (without any provision for depreciation or diminution in value); or

(b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item,

shall be shown separately in the balance sheet or in a note to the accounts.

(5) In sub-paragraph (4) above, references in relation to any item to the comparable amounts determined as there mentioned are references to —

(a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to the historical cost accounting rules; and

(b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.

Revaluation reserve

29.—(1) Subject to sub-paragraph (7) below, with respect to any determination of the value of an asset of a company in accordance with paragraph 22 or 23 above, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) shall be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

(2) The amount of the revaluation reserve shall be shown in the company's balance sheet under Liabilities item A.III, but need not be shown under the name "revaluation reserve".

(3) An amount may be transferred from the revaluation reserve—

(a) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or

(b) on capitalisation;

and the revaluation reserve shall be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In sub-paragraph (3)(b) "capitalisation", in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve shall not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve shall be disclosed in a note to the accounts.

(7) This paragraph does not apply to the difference between the valuation of investments and their purchase price or previous valuation shown in the long term business technical account or the non-technical account in accordance with note (9) on the profit and loss account format.

Section C

Historical Cost Accounting Rules

Preliminary

30. Subject to paragraphs 20 to 29 above, the amounts to be included in respect of all items shown in a company's accounts shall be determined in accordance with the rules set out in paragraphs 31 to 41 below.

Valuation of assets

General rules

31. Subject to any provision for depreciation or diminution in value made in accordance with paragraph 32 or 33 below, the amount to be included in respect of any asset in the balance sheet format shall be its cost.

32. In the case of any asset included under Assets item B (intangible assets), C.I (land and buildings), F.I. (tangible assets) or F.II (stocks) which has a limited useful economic life, the amount of —

(a) its cost; or

(b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its cost less that estimated residual value,

shall be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

33.—(1) This paragraph applies to any asset included under Assets item B (tangible assets), C (investments), F.I (tangible assets) or F.IV (own shares).

(2) Where an asset to which this paragraph applies has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(3) Provisions for diminution in value shall be made in respect of any asset to which this paragraph applies if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it shall be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(4) Where the reasons for which any provision was made in accordance with sub-paragraph (1) or (2) have ceased to apply to any extent, that provision shall be written back to the extent that it

is no longer necessary; and any amounts written back in accordance with this sub-paragraph which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

34.—(1) This paragraph applies to assets included under Assets items E.I., II. and III. (debtors) and F.III (cash at bank and in hand) in the balance sheet.

(2) If the net realisable value of an asset to which this paragraph applies is lower than its cost the amount to be included in respect of that asset shall be the net realisable value.

(3) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

Development costs

35.—(1) Notwithstanding that amounts representing "development costs"may be included under Assets item B (intangible assets) in the balance sheet format, an amount may only be included in a company's balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company's balance sheet in respect of development costs the following information shall be given in a note to the accounts —

(a) the period over which the amount of those costs originally capitalised is being or is to be written off; and

(b) the reasons for capitalising the development costs in question.

Goodwill

36.—(1) The application of paragraphs 31 to 33 above in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

(2) Subject to sub-paragraph (3) below, the amount of the consideration for any goodwill acquired by a company shall be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen shall not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is included as an asset in the company's balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period shall be disclosed in a note to the accounts.

Miscellaneous and supplemental

Excess of money owed over value received as an asset item

37.—(1) Where the amount repayable on any debt owed by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

(a) it shall be written off by reasonable amounts each year and must be completely written off before repayment of the debt; and

(b) if the current amount is not shown as a separate item in the company's balance sheet it must be disclosed in a note to the accounts.

Assets included at a fixed amount

38.—(1) Subject to the following sub-paragraph, assets which fall to be included under Assets item F.I.(tangible assets) in the balance sheet format may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced, where—

(a) their overall value is not material to assessing the company's state of affairs; and

(b) their quantity, value and composition are not subject to material variation.

Determination of cost

39.—(1) The cost of an asset that has been acquired by the company shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The cost of an asset constructed by the company shall be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the construction of that asset.

(3) In addition, there may be included in the cost of an asset constructed by the company —

(a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the construction of that asset, but only to the extent that they relate to the period of construction; and

(b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction;

provided, however, in a case within sub-paragraph (b) above, that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

40.—(1) Subject to the qualification mentioned below, the cost of any assets which are fungible assets may be determined by the application of any of the methods mentioned in sub-paragraph (2) below in relation to any such assets of the same class. The method chosen must be one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

(a) the method known as "first in, first out" (FIFO);

(b) the method known as "last in, first out" (LIFO);

(c) a weighted average price; and

(d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any company—

(a) the cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph; and

(b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph;

the amount of that difference shall be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5) below, for the purposes of sub-paragraph (3)(b) above, the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

Substitution of original amount where price or cost unknown

41. Where there is no record of the purchase price of any asset acquired by a company or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 39 above, or any such record cannot be obtained without unreasonable expense or delay, its cost shall be taken for the purposes of paragraphs 31 to 36 above to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.

Section D

Rules for Determining Provisions

Preliminary

42. Provisions which are to be shown in a company's accounts shall be determined in accordance with paragraphs 43 to 53 below.

Technical provisions

43. The amount of technical provisions must at all times be sufficient to cover any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

Provision for unearned premiums

44.—(1) The provision for unearned premiums shall in principle be computed separately for each insurance contract, save that statistical methods (and in particular proportional and flat rate methods) may be used where they may be expected to give approximately the same results as individual calculations.

(2) Where the pattern of risk varies over the life of a contract, this shall be taken into account in the calculation methods.

Provision for unexpired risks

45. The provision for unexpired risks (as defined in paragraph 81 below) shall be computed on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business provision

46.—(1) The long term business provision shall in principle be computed separately for each long term contract, save that statistical or mathematical methods may be used where they may be expected to give approximately the same results as individual calculations.

(2) A summary of the principal assumptions in making the provision under sub-paragraph (1) shall be given in the notes to the accounts.

(3) The computation shall be made annually by a Fellow of the Institute or Faculty of Actuaries on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in Council Directive 92/96/EEC.

Provisions for claims outstanding General business

47.—(1) A provision shall in principle be computed separately for each claim on the basis of the costs still expected to arise, save that statistical methods may be used if they result in an adequate provision having regard to the nature of the risks.

(2) This provision shall also allow for claims incurred but not reported by the balance sheet date, the amount of the allowance being determined having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(3) All claims settlement costs (whether direct or indirect) shall be included in the calculation of the provision.

(4) Recoverable amounts arising out of subrogation or salvage shall be estimated on a prudent basis and either deducted from the provision for claims outstanding (in which case if the amounts are material they shall be shown in the notes to the accounts) or shown as assets.

(5) In sub-paragraph (4) above, "subrogation" means the acquisition of the rights of policy holders with respect to third parties, and "salvage" means the acquisition of the legal ownership of insured property.

(6) Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose shall be calculated by recognised actuarial methods, and paragraph 48 below shall not apply to such calculations.

(7) Implicit discounting or deductions, whether resulting from the placing of a current value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise effected, is prohibited.

48.—(1) Explicit discounting or deductions to take account of investment income is permitted, subject to the following conditions:

- (a) the expected average interval between the date for the settlement of claims being discounted and the accounting date shall be at least four years;
- (b) the discounting or deductions shall be effected on a recognised prudential basis;
- (c) when calculating the total cost of settling claims, the company shall take account of all factors that could cause increases in that cost;
- (d) the company shall have adequate data at its disposal to construct a reliable model of the rate of claims settlements;
- (e) the rate of interest used for the calculation of present values shall not exceed a rate prudently estimated to be earned by assets of the company which are appropriate in magnitude and nature to cover the provisions for claims being discounted during the period necessary for the payment of such claims, and shall not exceed either —
  - (i) a rate justified by the performance of such assets over the preceding five years, or
  - (ii) a rate justified by the performance of such assets during the year preceding the balance sheet date.

(2) When discounting or effecting deductions, the company shall, in the notes to the accounts, disclose —

- (a) the total amount of provisions before discounting or deductions,
- (b) the categories of claims which are discounted or from which deductions have been made,

(c) for each category of claims, the methods used, in particular the rates used for the estimates referred to in sub-paragraph (1)(d) and (e), and the criteria adopted for estimating the period that will elapse before the claims are settled.

Long term business

49. The amount of the provision for claims shall be equal to the sums due to beneficiaries, plus the costs of settling claims.

Equalisation provision

50. Any equalisation provision established under the Insurance Companies (Credit Insurance) Regulations 1990 shall be valued in accordance with the provisions of those Regulations.

Accounting on a non-annual basis

51.—(1) Either of the methods described in paragraphs 52 and 53 below may be applied where, because of the nature of the class or type of insurance in question, information about premiums receivable or claims payable (or both) for the underwriting years is insufficient when the accounts are drawn up for reliable estimates to be made.

(2) The use of either of the methods referred to in sub-paragraph (1) shall be disclosed in the notes to the accounts together with the reasons for adopting it.

(3) Where one of the methods referred to in sub-paragraph (1) above is adopted, it shall be applied systematically in successive years unless circumstances justify a change.

(4) In the event of a change in the method applied, the effect on the assets, liabilities, financial position and profit or loss shall be stated in the notes to the accounts.

(5) For the purposes of this paragraph and paragraph 52 below, "underwriting year" means the financial year in which the insurance contracts in the class or type of insurance in question commenced.

52.—(1) The excess of the premiums written over the claims and expenses paid in respect of contracts commencing in the underwriting year shall form a technical provision included in the technical provision for claims outstanding shown in the balance sheet under Liabilities item C.3.

(2) The provision may also be computed on the basis of a given percentage of the premiums written where such a method is appropriate for the type of risk insured.

(3) If necessary, the amount of this technical provision shall be increased to make it sufficient to meet present and future obligations.

(4) The technical provision constituted under this paragraph shall be replaced by a provision for claims outstanding estimated in accordance with paragraph 47 above as soon as sufficient information has been gathered and not later than the end of the third year following the underwriting year.

(5) The length of time that elapses before a provision for claims outstanding is constituted in accordance with sub-paragraph (4) above shall be disclosed in the notes to the accounts.

53.—(1) The figures shown in the technical account or in certain items within it shall relate to a year which wholly or partly precedes the financial year (but by no more than 12 months).

(2) The amounts of the technical provisions shown in the accounts shall if necessary be increased to make them sufficient to meet present and future obligations.

(3) The length of time by which the earlier year to which the figures relate precedes the financial year and the magnitude of the transactions concerned shall be disclosed in the notes to the accounts.