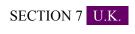
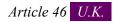
# Council Directive of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC)



## Valuation rules

Article 45 U.K.

Article 32 of Directive 78/660/EEC, under which the valuation of items shown in the annual accounts must be based on the principle of purchase price or production cost, shall apply to investment subject to Articles 46 to 49 of this Directive.



1 Member States may require or permit the valuation of investments shown as assets under C on the basis of their current value calculated in accordance with Articles 48 and 49.

2 The investments shown as assets under D shall be shown at their current value.

3 Where investments are shown at their purchase price, their current value shall be disclosed in the notes on the accounts.

However, Member States in which, on the date of the notification of this Directive, investments are shown at their purchase price may give undertakings the option of initially disclosing in the notes on the account the current value of investment shown as assets under C (I) no later than five years after the date referred to in Article 70 (1) and the current value of other investments no later than three years after the same date.

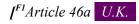
4 Where investments are shown at their current value, their purchase price shall be disclosed in the notes on the accounts.

5 The same valuation method shall be applied to all investments included in any item denoted by an arabic numeral or shown as assets under C (I).[<sup>F1</sup>Member States may permit derogations from this requirement.]

 $[^{F2}6$  The method(s) applied to each investment item shall be stated in the notes on the accounts, together with the amounts so determined.]

#### **Textual Amendments**

- F1 Inserted by Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (Text with EEA relevance).
- F2 Substituted by Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (Text with EEA relevance).



1 Where assets and liabilities are valued in accordance with Section 7a of Directive 78/660/EEC, paragraphs 2 to 6 of this Article shall apply.

2 The investments shown as assets under D shall be shown at their fair value.

3 Where investments are shown at their purchase price, their fair value shall be disclosed in the notes on the accounts.

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6 The method(s) applied to each investment item shall be stated in the notes on the accounts, together with the amounts so determined.]

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Article 47 U.K.

Where current value is applied to investments, Article 33 (2) and (3) of Directive 78/660/ EEC shall apply, except as provided in Articles 37 and 44 of this Directive.

## Article 48 U.K.

1 In the case of investments other than land and buildings, current value shall mean market value, save as provided in paragraph 5.

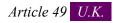
2 Where investments are officially listed on an official stock exchange, market value shall mean the value on the balance-sheet date or, when the balance-sheet date is not a stock-exchange trading day, on the last stock-exchange trading day before that date.

3 Where a market exists for investments other than those referred to in paragraph 2, 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 investments such as referred to in paragraphs 2 or 3 have been sold or are to be sold within the short term, the market value shall be reduced by the actual or estimated realization costs.

5 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.

6 In all cases the method of valuation shall be precisely described and the reason for adopting it stated in the notes on the accounts.



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 paragraphs 4 and 5.

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.

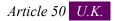
3 The market value shall be determined through the separate valuation of each land and buildings item, carried out at least every five years according to methods generally recognized or recognized by the insurance supervisory authorities. Article 35 (1) (b) of Directive 78/660/ EEC shall not apply.

4 Where the value of any land and buildings item has diminished since the preceding valuation under paragraph 3, an 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 accordance with paragraphs 2 and 3.

5 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 paragraphs 2 and 4 shall be reduced by the actual or estimated realization costs.

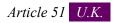
6 Where it is impossible to determine the market value of a land and buildings item, the value arrived at on the basis of the principle of purchase price or production cost shall be deemed to be the current value.

7 The method by which the current value of land and buildings has been arrived at and their breakdown by financial year of valuation shall be disclosed in the notes on the accounts.



Where Article 33 of Directive 78/660/EEC is applied to insurance undertakings, it shall be so in the following manner:

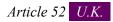
- (a) paragraph 1 (a) shall apply to assets shown under F (I) as defined in Article 6 of this Directive;
- (b) paragraph 1 (c) shall apply to assets shown under C (I), (II), (III) and (IV) and F (I) (except for stocks) and (III) as defined in Article 6 of this Directive.



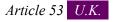
Article 35 of Directive 78/660/EEC shall apply to insurance undertakings subject to the following provisions:

- (a) it shall apply to assets shown under B and C and to fixed assets shown under F (I) as defined in Article 6 of this Directive;
- (b) paragraph 1 (c) (aa) shall apply to assets shown under C (II), (III) and (IV) and F (III) as defined in Article 6 of this Directive.

Member States may require that value adjustments be made in respect of transferable securities shown as investments, so that they are shown at the lower value to be attributed to them at the balance-sheet date.



Article 38 of Directive 78/660/EEC shall apply to assets shown under F (I) as defined in Article 6 of this Directive.

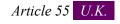


Article 39 of Directive 78/660/EEC shall apply to assets shown under E (I), (II) and (III) and F (II) as defined in Article 6 of this Directive.

Article 54 U.K.

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

In life assurance the calculation of the amount of any acquisition costs to be deferred may be taken into the actuarial calculation referred to in Article 59.



- 1
- a If they have not been valued at market value, debt securities and other fixed-income securities shown as assets under C (II) and (III) shall be shown in the balance sheet at purchase price. Member States may, however, require or permit such debt securities to be shown in the balance sheet at the amount repayable at maturity.
- b Where the purchase price of the securities referred to in point (a) exceeds the amount repayable at maturity, the amount of the difference shall be charged to the profit and loss account. Member States may, however, require or permit the amount of the difference to be written off in instalments so that it is completely written off when the securities are repaid. That difference must be shown separately in the balance sheet or in the notes on the accounts.
- c Where the purchase price of the securities referred to in point (a) is less than the amount repayable at maturity, Member States may require or permit the amount of the difference to be released to income in instalments over the period remaining until repayment. That difference must be shown separately in the balance sheet or in the notes on the accounts.

2 Where debt securities or other fixed-income securities that are not valued at market value are sold before maturity and the proceeds are used to purchase other debt securities or fixed-income securities, Member States may permit the difference between the proceeds of sale and their book value to be spread uniformly over the period remaining until the maturity of the original investment.

Article 56	<i>U.K.</i>
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#### **Technical provisions**

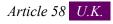
The amount of technical provisions must at all times be such that an undertaking can meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

Article 57 U.K.

#### Provision for unearned premiums

1 The provision for unearned premiums shall in principle be computed separately for each insurance contract. Member States may, however, permit the use of statistical methods, and in particular proportional and flat-rate methods, where they may be expected to give approximately the same results as individual calculations.

2 In classes of insurance where the assumption of a temporal correlation between risk experience and premium is not appropriate, calculation methods shall be applied that take account of the differing pattern of risk over time.



#### Provision for unexpired risks

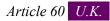
The provision for unexpired risks referred to in Article 26 shall be computed on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.



### Life assurance provision

1 The life assurance provision shall in principle be computed separately for each life assurance contract. Member States may, however, permit the use of statistical or mathematical methods where they may be expected to give approximately the same results as individual calculations. A summary of the principal assumptions made shall be given in the notes on the accounts.

2 The computation shall be made annually by an actuary or other specialist in this field on the basis of recognized actuarial methods.



#### **Provisions for claims outstanding**

### 1 Non-life insurance

- a A provision shall in principle be computed separately for each case on the basis of the costs still expected to arise. Statistical methods may be used if they result in an adequate provision having regard to the nature of the risks; Member States may, however, make the application of such methods subject to prior approval.
- b This provision shall also allow for claims incurred but not reported by the balance-sheet date; its amount shall be determined having regard to past experience as to the number and magnitude of claims reported after the balance-sheet date.
- c Claims settlement costs shall be included in the calculation of the provision irrespective of their origin.
- d Recoverable amounts arising out of the acquisition of the rights of policyholders with respect to third parties (subrogation) or of the legal ownership of insured property (salvage) shall be deducted from the provision for claims outstanding; they shall be estimated on a prudent basis. Where such amounts are material, they shall be disclosed in the notes on the accounts.
- e By way of derogation from subparagraph (d), Member States may require or permit the disclosure of recoverable amounts as assets.
- f 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 recognized actuarial methods.

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

Member States may permit explicit discounting or deductions to take account of investment income. No such discounting or deductions shall be permissible unless:

- (i) the expected average date for the settlement of claims is at least four years after the accounting date;
- (ii) the discounting or deduction is effected on a recognized prudential basis; the competent authority must be given advance notification of any change in method;
- (iii) when calculating the total cost of settling claims, an undertaking takes account of all factors that could cause increases in that cost;
- (iv) an undertaking has adequate data at its disposal to construct a reliable model of the rate of claims settlements;
- (v) the rate of interest used for the calculation of present values does not exceed a prudent estimate of the investment income from assets invested as a provision for claims during the period necessary for the payment of such claims. Moreover, it must not exceed either of the following:
  - the investment income from such assets over the preceding five years,
  - the investment income from such assets during the year preceding the balance-sheet date.

When discounting or effecting deductions, an undertaking shall, in the notes on its accounts, disclose the total amount of provisions before discounting or deduction, the categories of claims which are discounted or from which deductions have been made and, for each category of claims, the methods used, in particular the rates used for the estimates referred to in the preceding subparagraph, points (iii) and (v), and the criteria adopted for estimating the period that will elapse before the claims are settled.

#### 2 *Life insurance*

- a The amount of the provision for claims shall be equal to the sums due to beneficiaries, plus the costs of settling claims. It shall include the provision for claims incurred but not reported.
- b Member States may require the disclosure in liabilities item C (2) of the amounts referred to in (a).

## Article 61 U.K.

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

#### Method 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 which is included in the technical provision for claims outstanding shown in the balance sheet in liabilities item C (3). The provision may also be computed on the basis of

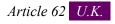
a given percentage of the premiums written where such a method is appropriate for the type of risk insured. Should the need arise, the amount of this technical provision shall be increased to make it sufficient to meet present and future obligations. The technical provision constituted by this method shall be replaced by a provision for claims outstanding estimated in the usual manner as soon as sufficient information has been gathered and not later than the end of the third year following the underwriting year.

#### Method 2

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. It must not do so by more than 12 months. The amounts of the technical provisions shown in the annual accounts shall if necessary be increased to make them sufficient to meet present and future obligations.

2 Where one of the methods described in paragraph 1 is adopted, it shall be applied systematically in successive years unless circumstances justify a change. The use of either method shall be disclosed in the notes on the accounts and the reasons given; in the event of a change in the method applied, the effect on the assets, liabilities, financial position and profit or loss shall be indicated in the notes on the accounts. Where Method 1 is used, the length of time that elapses before a provision for claims outstanding is constituted on the usual basis shall be disclosed in the notes on the accounts. Where Method 2 is used, 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 on the accounts.

3 For the purposes of this Article, 'underwriting year' shall mean the financial year in which the insurance contracts in the class or type of insurance in question commenced.



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