SCHEDULE 6

ACCOUNTING PRINCIPLES AND RULES

PART III

CURRENT VALUE ACCOUNTING RULES

Preliminary

8.—(1) Subject to paragraphs 15 to 17 below:

(a) the amounts to be included in respect of assets of any description mentioned in paragraph 10 below must be determined in accordance with that paragraph; and

(b) subject to paragraph 9 below, the amounts to be included in respect of assets of any description mentioned in paragraph 11 below may be determined in accordance with that paragraph or the rules set out in paragraphs 18 to 31 below ("the historical cost accounting rules").

9. The same valuation method must 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

10.—(1) Subject to paragraph 12 below, investments falling to be included under Assets item B (investments) must be included at their current value calculated in accordance with paragraphs 13 and 14 below.

(2) Investments falling to be included under Assets item C (assets held to cover linked liabilities) must be shown at their current value calculated in accordance with paragraphs 13 and 14 below.

11.—(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) in the balance sheet format may be shown at their current value calculated in accordance with paragraphs 13 and 14 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

12.—(1) This paragraph applies to debt securities and other fixed-income securities shown as assets under Assets items B.II (investments in associated bodies) and B.III (other financial investments).

(2) Securities to which this paragraph applies may either be valued in accordance with paragraph 10 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) must be charged to the income and expenditure account; and

(b) must 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

must 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 must be released to income in instalments over the period remaining until repayment, in which case there must 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 must be disclosed in the notes to the accounts.

(7) Where securities to which this paragraph applies which are not valued in accordance with paragraph 10 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"

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

(2) In the case of listed investments, market value must 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 must 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 value must 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 must be valued on a basis which has prudent regard to the likely realisable value.

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

(2) Market value must 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 must 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 must be made.

(5) The lower value arrived at under sub-paragraph (4) must not be increased in subsequent balance sheets unless such increase results from a new determination or market value arrived at in accordance with subparagraphs (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) must 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 or purchase price or production cost must be deemed to be its current value.

Application of the depreciation rules

15.—(1) Where:

(a) the value of any asset of a society is determined in accordance with paragraph 10 or 11 above; and

(b) in the case of a determination under paragraph 10 above, the asset falls to be included under Assets item B.I.,

the value must 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 society's accounts, instead of its cost or any value previously so determined for that asset; and paragraphs 19, 23 and 25 below must 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 10 or 11 above (as the case may be).

(2) The amount of any provision for depreciation required in the case of any asset by paragraph 20 or 21 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 income and expenditure 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 income and expenditure account or in a note to the accounts.

16.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a society's accounts have been determined in accordance with paragraph 10 or 11 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 must be disclosed in a note to the accounts.

(3) The purchase price of investments valued in accordance with paragraph 10 above must be disclosed in the notes to the accounts.

(4) In the case of each balance sheet item valued in accordance with paragraph 11 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,

must 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

17.—(1) Subject to sub-paragraph (6) below, with respect to any determination of the value of an asset of a society in accordance with paragraph 10 or 11 above, the amount of any gain 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) must be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

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

(3) An amount may be transferred from the revaluation reserve to the income and expenditure account, if the amount was previously charged to that account and the revaluation reserve must be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) The revaluation reserve must not be reduced except as mentioned in this paragraph.

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

(6) 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 income and expenditure account format.