TITLE: FOREIGN EXCHANGE FLUCTUATIONS IN THE ANNUAL STATEMENT

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ABSTRACT: This paper is intended for those actuaries who want to find out how annual statements of foreign subsidiaries are translated into U.S. dollars. The paper will also present some of the problems that can result from these translation methods. The paper presents some samples of different translation methods used and then works through some simple examples to see the effect of these methods on several exhibits of the annual statement. Although written from the viewpoint of a reinsurer, the principles would apply equally to a primary insurer.

INTRODUCTION

Foreign reinsurance subsidiaries have a special importance in the international marketplace. Because of protectionist laws in many foreign countries, U.S. insurers are prohibited from writing primary business in many overseas countries. If a U.S. company is determined to write business in these countries, reinsurance may be the only way to do it.

This paper is for all those people who wonder how foreign exchange fluctuations affect the published results of those companies. The paper gives an overview of what FASB and the NAIC have to say about translating foreign subsidiaries annual statements into U.S. dollars so that they can be consolidated into the U.S. parent's annual statement. Then by starting with a simple manufacturing foreign subsidiary and working up to a more complicated reinsurance foreign subsidiary, we'll see how these rules are suppose to be applied and how they are applied in practice. We'll also see how the different ways of translating the annual statements of foreign subsidiaries affect the U.S. annual statement.

Before we start talking about methods, we should set up a criteria to judge any foreign currency translation method. The Financial Accounting Standards Board uses the following criteria:

1) a translation method should provide information that meets the goals of the report we are working with. As an example, certain exhibits of the annual statement are intended to show underwriting results. A translation method for those exhibits should not mix underwriting and investment information;

2) a translation method should provide information that is compatible with intuition. This statement seems obvious but is is a big reason why some translation methods have become obsolete in the past.

The Financial Accounting Standards Board has been grappling with the questions of foreign currency translation for many years and they have the most to say about it. Let's start with them.

FASB 52

FASB 52 spells out the rules of the game for translating the financial statements of foreign subsidiaries into U.S. dollars so that they can be consolidated with the parent's statements. Translating a foreign statement into U.S. dollars is not that difficult when you follow the methods of FASB 52. Basically, you get the exchange rate at the annual statement date between the foreign currency you're dealing with and the U.S. dollar. Then you use that rate to translate all the assets and liabilities. We

all realize that the value of a foreign asset purchased over ten years ago will go up or down in terms of U.S. dollars depending upon whether the dollar has weakened or strengthened. The amount of a foreign liability will also change over time. Two questions arise when you try to account for foreign exchange gains or losses that accumulate over the years. The two questions that come up are 1) how do you measure that gain or loss and 2) when should that gain or loss be included in net income.

The answer to the second question first. FASB 52 gives different rules for including foreign exchange gains or losses in net income depending upon how the foreign entity operates and also depending upon the type of transaction that we are talking about.

If a foreign entity is relatively self-contained and integrated within a foreign country, then the foreign exchange gain or loss on that investment should not be included in current net income. An example of this type of operation would be a French subsidiary that collects premium, maintains its own reserves and funds, and pays losses all in it's local currency. If this subsidiary is ever sold or liquidated, then the accumulated foreign exchange gain or loss should be included in the net income of the parent at that time.

If a foreign entity is really an extension of the parent's domestic operation and it's operation directly affects the parent's

cash flow, then any foreign exchange gains or losses from that operation should be included in the parent's current net income. An example of this type of operation is a parent that collects premium in Canadian dollars, converts them into U.S. dollars, maintains this money with its other domestic funds and buys Canadian dollars at the spot rate to pay losses and expenses. The spot rate is the exchange rate for immediate delivery of the currencies exchanged.

That covers the difference in rules that depend upon type of operation. Now for the distinctions that depend upon type of transaction.

If a foreign subsidiary or the parent conducts a transaction in a currency other than its functional currency (FASB 52 defines the primary local currency as the functional currency) and there is an actual foreign exchange gain or loss on this transaction, then that gain or loss should be included in the current net income of the parent. As an example, a French subsidiary writes a policy in Germany for a certain price in marks. These marks have a certain value in francs at the time of sale. When the French subsidiary collects these marks their value in francs may have gone up or down. This gain or loss should be included in the net income of the U.S. parent.

There is one exception to this rule. If the transaction is designated as and is effective as a hedge of a foreign currency commitment, then any foreign exchange gain or loss on that hedge is deferred and not included in current income. The gain or loss on the hedge is deferred and not included in current income. The gain or loss on the hedge should be deferred and used to offset the loss or gain from the designated foreign currency commitment.

That answers question 2. The best way to answer questions 1 -- how to measure foreign exchange gains or losses -- is to start with an example for a simple manufacturing subsidiary and then move on to a simple reinsurance subsidiary.

FASB 52 FOR A SIMPLE MANUFACTURING SUBSIDIARY

The foreign exchange gains or losses that result from exchange rates changing over time are called "translation adjustments" by FASB 52. Translation adjustments emerge from two sources. The first source is the assets and liabilities that were on the balance sheet at the beginning of the year. The second source is from revenues, expenses, gains and losses that occur during the year.

Translation adjustments have to be calculated when translating a subsidiary's financial statements from their functional currency into U.S. dollars. In order to see exactly what a transaction

adjustment is, why don't we set up a foreign subsidiary at December 31, 1980, give it something to do during 1981 and then translate its 1981 year-end financial statement into dollars. In the process we will calculate the translation adjustment.

The company's year-end 1980 annual statement is shown on Exhibit I. This is a manufacturing firm so it has some inventory and some cash. It also has a large amount of liabilities. On July 1, 1981, the item will sell in item for FC20 (20 functional currency monetary units) which had been carried in inventory for FC10, so it made a profit of FC10. The exchange rate on December 31, 1980 was FC1 = $1. The exchange rate on December 31, 1981 was FC1 = $0.50. In this example the dollar strengthened.

On Exhibit I we see the effect of the above transaction on the foreign entity's 1981 year-end balance sheet. We see the shift of assets from inventory to cash and we see the increase in retained earnings.

On Exhibit 2 we have the income statement in both the functional currency and translated into U.S. dollars. Let's talk about how we translate the functional currency statement into U.S. dollars.

According to FASB 52, any revenue, expense, gain or loss should be translated into U.S. dollars using the exchange rate that existed

at the date those elements were recognized. In our example where there is only one transaction, it is not that difficult to isolate an exchange rate. However, for a normal company, trying to keep track of exchange rates along with transactions could be an impractical task. Because of this FASB 52 allows weighted averages of exchange rates for the period to be used. In this example we will use the average 1981 exchange rate of FC1 = $0.75 to translate the income statement items.

This brings us to the first place where translation adjustments come from--Net Income. The FC10 that the company received on July 1, 1981 was equal to $7.50 on that date because the exchange rate was FC1 = $0.75. On December 31, 1981 that FC10 was worth only $5.00. So looking at it from the viewpoint of the parent, we lost $2.50 because of the change in exchange rates.

This is shown on Exhibit 3 where we calculate the total translation adjustment. In general, the difference between the year end exchange rate and the average exchange rate for the year should be multiplied times the net income to get the translation adjustment attributable to net income.

The next step in the translation process is expressing the current assets and liabilities in U.S. dollars. The 1981 Balance Sheet is shown in functional currency on Exhibit 1. By using an exchange rate of FC1 = $0.50 the assets and liabilities have been

translated and are shown on Exhibit 4. We have the original capital carried over at the "historical" exchange rate. The "historical" exchange rate is the original rate used to translate the capital. We also have the net income of $7.50 which we calculated on Exhibit 3 added to Retain Earnings.

This translation process for assets and liabilities also created some translation adjustments and these are calculated on Exhibit 4. The total investment subject to exchange risk is sometime called the net assets and is equal to assets minus liabilities. This is FC20 in our example. These assets were worth $20 on December 31, 1980 and dropped to $10 on December 31, 1981. We had an unrealized foreign exchange loss or another way of looking at it is that the value of the parent's investment in the subsidiary declined over the year. This translation adjustment will be added to the translation adjustment due to Net Income for the total translation adjustment.

The total translation adjustment is made a separate component of equity. And now that the foreign subsidiary's balance sheet is translated into U.S. Dollars and the translation adjustments have been isolated and accounted for, the statement can be incorporated into the parent's annual statement following the rules of consolidation.

Using this general approach to translating annual statements, we get results that agree with our intuition. As the dollar strengthens, the value of an existing foreign subsidiary goes down. The amount of change is directly proportional to the length of time that we held the foreign asset i.e., if the dollar is strengthening and you have had one asset longer than another, then the first asset will have a bigger percentage decline in value than the second. All the exhibits show what we expect to see.

The method also produces an annual statement where all the important relationships that hold true in the functional currency also hold true in the translated currency. So the method meets both of our goals for a translation method.

One of the reasons why all these exhibits make sense is that all the transactions are simple and instantaneous. At the point of sale, cash is exchanged for an item and the transaction is over. There is no dispute about the amount of money involved. The amount that changes hands is very clear cut. This also holds true for assets and liabilities. Although their value may change over time, at any particular point in time their value can be determined in a straight-forward manner.

These are the main reasons why reinsurance company financial statements are not as easy to translate. A transaction has a

definite beginning but it takes serveral years to call it complete. When an annual treaty is written it takes a year to earn the premium. It may take several years to pay all the losses from a treaty and during that time the ultimate amount of those losses will not be known.

Another complication with reinsurance companies' statutory annual statements is that they try to give an "historical" perspective to a company in addition to the "snapshot" perspective that balance sheets and income statements give. Schedule O and P, and the SEC disclosure are supposed to show the historical development pattern of losses. Trying to fit the rules of FASB 52 to these exhibits and the special statutory accounting rules provide some complications.

Let's take a simple reinsurance company and look at what happens when we apply FASB 52.

FASB 52 FOR A SIMPLE REINSURANCE COMPANY

Let's suppose that our simple reinsurance company has the December 31, 1980 balance sheet shown on Exhibit 5. The company has some cash and other assets. It also has outstanding losses of FC 80. Over the next few years, suppose we have the following sequence of events:

Date		Event
1.	January 1, 1981	The foreign subsidiary writes a one year liability policy for FC 100. The exchange rate is FC1 = $1.
2.	July 1, 1981	There is a loss under the policy but it is not reported until 1982.
3.	December 31, 1981	An IBNR reserve is established for FC40. The exchange rate is FC1 = $0.50.
4.	July 1, 1982	An initial case reserve of FC 50 is established and the IBNR reserve is taken down.
5.	December 31, 1982	The exchange rate is FC1 = $0.25.
6.	July 31, 1983	The loss is paid for FC 60.
7.	December 31, 1983	The exchange rate is FC1 = $0.50.

On Exhibit 5 we see the effect of the above transactions on the 1981, 1982 and 1983 functional currency balance sheets.

On Exhibit 6, we have the income statements for 1981, 1982 and 1983 in both the functional currency and translated into U.S. dollars. Just like the manufacturing firm, any revenue, expense, gain or loss has to be translated into U.S. dollars using the exchange rates that existed at the date these elements were recognized. In our example, the premium was earned uniformly throughout the year so a weighted average exchange rate should be calculated using earned premiums as weights. This weighted average exchange rate should be used to translate the premiums.

When it come to losses, we follow a similar procedure for calculating an exchange rate for translation. A weighted average exchange rate should be calculated using incurred losses as weights. In our example, all loss transactions take place midway through the year so the exchange rate to be used is the average rate.

On Exhibit 7, 8 and 9 we see the calculation of translation adjustments due to net income for 1981, 1982 and 1983.

These calculations follow the same procedure that we saw for the manufacturing firm. Also shown on these exhibits are the translation adjustments attributable to assets and liabilities. Once again the procedure matches that of the manufacturing firm.

All of these results come together on Exhibit 10 in the translated balance sheet. By using this general procedure we get results

that we expect in the balance sheets and income statement. As the dollar strengthens, the value of our foreign subsidiary goes down. If the dollar had weakened, the value of the foreign subsidiary would go up.

One problem area that we run into is the historical exhibits. These exhibits are intended to show how our estimates of incurred losses change over time and they will be distorted if we let changes in exchange rates flow through them. We can see some of these problems on Exhibit 11 which shows the Schedule P and SEC disclosure for our example.

In our example, we revised our initial estimate of the loss upwards. This is what is shown in the functional currency exhibits. However, the translated exhibits show a completely different story. Here we see a pattern of wildly fluctuating results.

The problem comes up because of the changes in exchange rates. The dollar is strengthening in our example and as it does, the value of our foreign liabilities goes down. As we translate the development exhibits we get a mixture of underwriting and foreign investment results.

Please notice that the entire Schedule P is not restated each year using the latest exchange rate. It would be possible to do this

but it would involve a large bookkeeping task. Companies that I have seen that follow FASB 52 leave the historical loss numbers at the historical exchange rate and add on the latest numbers using the latest exchange rates. I'll talk about possible reasons why a company would do this later on.

So far, We've been talking about the GAAP rules on foreign exchange. Let's talk about what the NAIC has to say and then we'll talk about other methods that companies use.

THE NAIC ON FOREIGN EXCHANGE

When compared to FASB the NAIC has very little to say on how to account for foreign exchange. They seems to allow a great deal of leeway. From conversations with people at the NAIC, the preferred method seems to be the rules set down by FASB 52. However, the NAIC realizes that for companies which have small overseas operations the requirements of FASB 52 might be onerous. So they allow assets and liabilities to be carried at their historical rates and one overall balancing number to be carried as a liability. This balancing number is equal to net assets, which is assets minus liabilities, times the change in foreign exchange rate. Unrealized gains or losses are direct charge to surplus and realized gains or losses should be included in net income. As far as I know, the NAIC does not specify what a realized or unrealized gain or loss is so I suppose the FASB 52 definition applies.

DIFFERENT TRANSLATION METHODS THAT COMPANIES ARE USING

One method that is presently being used by some reinsurance companies is based on the predecessor of FASB 52 -- FASB 8. FASB 8 specified a slightly different translation method than FASB 52. It was replaced by FASB 52 in December, 1982 mainly because it produced results that were not compatible with the expected economic effects of an exchange rate change. We'll look at a simple example in order to see the difference.

The big difference between FASB 52 and FASB 8 is that FASB 8 specifies that assets carried at historical cost should be translated using historical exchange rates. FASB 52 requires that all assets and liabilities be translated using the current exchange rate. Inventories are a good example of an asset carried at cost. Some reinsurance and insurance companies interpreted this ruling that losses should be translated using historical exchange rates. They fix an exchange rate for a loss at its report date. Any additional transaction with that loss will use this fixed historical exchange rate.

Let's look at an example to see where the problem comes up. Suppose we have a foreign subsidiary with FC100 in assets FC80 in losses and FC 20 in equity. Suppose the exchange rate at the beginning of the year is FC1=$1. If the exchange rate charges to FC1=$2, i.e. the dollar weakens, then we would expect the value of our existing foreign asset to increase. According to FASB 52, we would get an additional $100 gain on the assets and an additional

$80 loss on the losses for a net exchange gain of $20. This is the procedure that matches our intuition. If we follow the "FASB 8" procedure we would get an exchange gain on the assets of $100, no change for the losses for a net total exchange gain of $100. This is a good deal more than we expect.

The "FASB 8" procedure also causes problems with Schedule P and the SEC disclosures. Suppose three claims occur in 1981 and that they are reported in three different years-1981, 1982 and 1983. Let's suppose that they are all worth FC100 and that the IBNR is estimated correctly. The foreign exchange rate is going to change in the following manner: on December 31, 1980 it's FC1=$1, on December 31, 1981 it's FC1=$.50, on December 31, 1982 it's FC1= $.30 and on December 31 it's FC1=$.20. The IBNR is always translated at the current exchange rate. The Schedule P and the SEC disclosures would appear as on Exhibit 12.

Here the problem come in because the different reporting dates of the claims result in different exchange rates and because the IBNR is translated using the current exchange rates.

All in all, the "FASB 8" method does not compare very favorably to the FASB 52 method. The "FASB 8" method produces distortions in all exhibits. The one point in its favor is that the historical exhibits are less distorted then under FASB 52 because the exchange rate is fixed once it is chosen. This eliminates some

of the fluctuation due to changes in foreign exchange rates.

Another exchange rate that some companies use when translating losses is the average exchange rate for each individual accident year. This is an improvement over using the exchange rate at report date but it still causes some problems. This method probably also had its basis with FASB 8.

By using each accident year's average exchange rate you get comparable loss development ratios between accident years. You cannot compare premium and loss dollar amounts from accident year to accident year since you would most likely be using different exchange rates. However, you would be able to compare all ratios between years since the different exchange rates would cancel out.

When we were talking about our simple reinsurance company we had a sequence of events that stretched over three years. Let's go back and display that example using separate average accident year exchange rates and calculate the translation reconciliation.

On Exhibit 13 we see the same information that we had in Exhibit 11 except now the Schedule P and SEC Disclosure have been translated using the 1981 accident year average exchange rate. The development patterns shown for the Schedule P exhibits are the same in both the functional currency and the translated currency. This is what we expected. We also see that when we combine loss

dollars from different accident years in the SEC Disclosure Form we don't get the same results in the functional and translated currency. This is also what was expected.

Ideally, all exhibits should show reasonable results after translation. Right now FASB 52 gives good results in the balance sheet and income statements but when it come to the historical exhibits there are problems if you don't do all the work. Following the hybrid FASB 8 procedures gives very poor results in the balance sheet and income statements but slightly better results than FASB 52 in the historical exhibits. If FASB 52 gives good results all around why don't companies use it?

ARGUMENTS AGAINST FASB 52

FASB 52 implies that each year we should restate all the international information in the historical exhibits. One possible reason why companies would be reluctant to do this is that it would involve restating a large amount of historical transaction. Another possible reason is that companies feel that those prior numbers should balance against previously published statements.

There is also another reason why companies might be reluctant to restate their numbers. If we restate prior years' numbers using the current exchange rate then there is a possible scenario where a statutory reserve would have to be established because of the

restatement. As the dollar weakens, prior years' earned premiums would be restated upwards. If we get enough years over $1,000,000 in premium we might have to set up a statutory reserve according to Footnote (a) of Schedule P.

To go off the topic a bit, this last paragraph brings up the whole question of how exchange rates should affect the establishment of statutory reserves. There will be certain situations where the exchange rate we choose will require a statutory reserve to be established. In my mind, this doesn't make sense. This points up a problem with the way statutory reserves are calculated rather than with exchange rates so I'm not going to dwell on it. However, it seem that a statutory reserve requirement should include the equity of the company in the trigger mechanism rather than just premiums and losses.

CLOSING WORDS

This paper has presented several different ways of translating annual statements of foreign subsidiaries into U.S. dollars. Of all the methods that we looked at, the one that comes closest to meeting the two goals that FASB sets out is the FASB 52 method.

When looking at the annual statements of companies who write a large amount of foreign business, it is important to know how they translate their results if you want to understand those results. I hope this paper makes the process a little easier.

Balance Sheet in Functional Currency

	Balance Sheets December 31		
	1980		1981
Assets:			
Inventory	FC50		FC40
Cash	FC50		FC70
Total Assets	FC100		FC110
Liabilities:	FC80		FC80
Equity:			
Capital	FC10		FC10
Retained Earnings	FC20	FC10+FC10=	FC20
Total Liability and Shareholder Equity	FC100		FC110

"FC" = Functional Currency

Translated Balance Sheets

Balance Sheets
December 31

Assets:

	1980		1981
Assets:			
Inventory	$ 50		$ 20
Cash	$ 50		$ 35
Total Assets	$100		$ 55
Liabilities:	$ 80		$ 40
Equity:			
Capital	$ 10		$ 10
Retained Earnings	$ 10	$10+$7.5 =	$17.5
Translation Adjustment	$ 0		$(12.5)
Total Liability and Shareholder Equity	$100		$ 55

Statement of Income
Year Ended 1981

	Functional Currency	U.S. Dollars (FC1 = $0.75)
Revenue from sale of inventory items:	FC20	$1.5
Expenses - cost of inventory items:	FC10	$7.5
Operating Income	FC10	$7.5

Calculation of Translation Adjustments

A.	Translation Adjustment due to Net Income	
1.	Net Income for 1981	FC10
2.	Difference between the Year End Rate and the average exchange rate	($0.25)
3.	Translation Adjustment Attributable to Net Income (1) x (2)	($2.50)
B.	Translation Adjustment due to Assets & Liabilities	
4.	Total Assets on December 31, 1980	FC100
5.	Total Liabilities on December 31, 1980	FC 80
6.	Net Assets on December 31, 1980 (4) - (5)	FC 20
7.	Difference between Year End Exchange Rate	($0.50)
8.	Translation Adjustment Attributable to Net Assets (6) x (7)	($10.00)
C.	Total Translation Adjustments (3) x (8)	($12.50)

Balance Sheet in Functional Currency

Balance Sheets
December 31

	1980	1981	1982	1983
Assets:				
Cash	FC 50	FC150	FC150	FC 90
Other Assets	FC 50	FC 50	FC 50	FC 50
Total Assets	FC100	FC200	FC200	FC140
Outstanding Losses:	FC 80	FC120	FC130	FC 80
Equity:				
Capital	FC 10	FC 10	FC 10	FC 10
Retained Earnings	FC 10	FC 70	FC 60	FC 50
Total Equity	FC 20	FC 80	FC 70	FC 60
Total Liability and Equity	FC100	FC200	FC200	FC140

Calculation of Translation Adjustment 1981

A. Translation Adjustment due to Net Income	
1. Net Income for 1981	FC 60
2. Difference between the Year-End Exchange Rate and the Average Rate	($0.25)
3. Translation Adjustment attributable to Net Income	($15.00)
B. Translation Adjustment due to Assets & Liabilities	
4. Total Assets on December 31, 1981	FC100
5. Total liabilities on December 31, 1981	FC 80
6. Net assets on December 31, 1981 (4)-(5)	FC 20
7. Difference between year-end Exchange rates	($0.50)
8. Translation Adjustments attributable to net assets (6)X(7)	($10.00)
C. Total Translation Adjustments (3)+(8)	($25.00)

Calculation of Translation Adjustment 1983

A. Translation Adjustment due to Net Income

1. Net Income for 1983	(FC10)
2. Difference between the Year-End Exchange Rate and the Average Rate	$.125
3. Translation Adjustment attributable to Net Income (1) X (2)	($1.25)

B. Translation Adjustment due to Assets & Liabilities

4. Total Assets on December 31, 1982	FC200
5. Total liabilities on December 31, 1982	FC130
6. Net assets on December 31, 1982 (4)-(5)	FC 70
7. Difference between year-end Exchange rates	$0.25
8. Translation Adjustments attributable to net assets (6) X (7)	$17.50

C. Total Translation Adjustments	$16.25

Calculation of Translation Adjustment 1982

A. Translation Adjustment due to Net Income	
1. Net Income for 1982	(FC 10)
2. Difference between the Year-End Exchange Rate and the Average Rate	($.125)
3. Translation Adjustment attributable to Net Income	$1.25
B. Translation Adjustment due to Assets & Liabilities	
4. Total Assets on December 31, 1980	FC200
5. Total liabilities on December 31, 1980	FC120
6. Net assets on December 31, 1980 (4)-(5)	FC 80
7. Difference between year-end Exchange rates	($0.25)
8. Translation Adjustments attributable to net assets (6)X(7)	($20.00)
C. Total Translation Adjustments (3)+(8)	($18.75)

Exhibit 10

Translated Balance Sheet

Balance Sheet
December 31

	1980 (FC1=$1)	1981 (FC1=$.50)	1982 (FC1=$.25)	1983 (FC1=$0.50)
Assets:				
Cash	$50	$75	$37.50	$45
Other Assets	$50	$25	$12.50	$25
Total Assets	$100	$100	$50.00	$70
Outstanding Losses:	$ 80	$ 60	$32.50	$40
Equity:				
Capital	$ 10	$ 10	$10	$10
Retained Earnings	$ 10	$ 55	$51.25	$47.50
Translation Adjustments	$ 0	($ 25)	($43.75)	($27.50)
Total Equity	$ 20	$ 40	$17.50	$30.00
Total Liabilitity and Equity	$100	$100	$50.00	$70.00

Calculation of Translation Adjustment 1982

A. Translation Adjustment due to Net Income	
1. Net Income for 1982	(FC 10)
2. Difference between the Year-End Exchange Rate and the Average Rate	($.125)
3. Translation Adjustment attributable to Net Income	$1.25
B. Translation Adjustment due to Assets & Liabilities	
4. Total Assets on December 31, 1981	FC200
5. Total liabilities on December 31, 1981	FC120
6. Net assets on December 31, 1981 (4)-(5)	FC 80
7. Difference between year-end Exchange rates	($0.25)
8. Translation Adjustments attributable to net assets (6)X(7)	($20.00)
C. Total Translation Adjustments (3)+(8)	($18.75)

Statement of Income
Year Ended 1981

	Functional Currency	U.S. Dollar (FC1=$.75)
1. Earned Premium	FC100	$75.00
2. Incurred Losses	FC 40	$30.00
3. Net Income	FC 60	$45.00

Statement of Income
Year Ended 1982

	Functional Currency	U.S. Dollar (FC1=$.375)
1. Earned Premium	FC 0	$ 0.00
2. Incurred Losses	FC10	$ 3.75
3. Net Income	(FC10)	($3.75)

Statement of Income
Year Ended 1983

	Functional Currency	U.S. Dollar (FC1=$.375)
1. Earned Premium	FC 0	$ 0.00
2. Incurred Losses	FC10	($3.75)
3. Net Income	(FC10)	($3.75)