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THE WEST OF ENGLAND SHIP OWNERS
MUTUAL INSURANCE ASSOCIATION
(LONDON) LIMITED

**THE WEST OF ENGLAND SHIP OWNERS
MUTUAL INSURANCE ASSOCIATION
(LONDON) LIMITED**

**REPORT & ACCOUNTS
20 FEBRUARY 1999**

REGISTERED NUMBER: 22211

**THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)**

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members will be held in the Hotel Le Royal, 12 Boulevard Royal, 2449 Luxembourg, on Tuesday 21 September 1999 at 12.45 hours, for the following purposes:

1. To approve the Report of the Directors and the Financial Statements for the year ended 20 February 1999.
2. To elect Directors.
3. To appoint PricewaterhouseCoopers as Auditors of the Association and to fix their remuneration.
4. To transact any other ordinary business of the Association.

By order of the Board

Secretary

9 June 1999

NOTE: A Member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a Member of the Association. The instrument appointing a proxy shall be left with the Secretary not later than 48 hours before the holding of the Meeting.

**THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)**

Directors

J A Loutsis (Chairman)
J F Muirhead (Vice Chairman)
L Criel
T C Hart
E Kromann
M T Los

Managers

The West of England Ship Owners Insurance Services Limited
Tower Bridge Court
224 - 226 Tower Bridge Road
London SE1 2UP

Secretary and Registered Office

D J Cross
Tower Bridge Court
224 - 226 Tower Bridge Road
London SE1 2UP

Telephone: 0171 716 6000

Registered Number : 22211

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

REPORT OF THE DIRECTORS

The Directors present their report together with the financial statements for the year ended 20 February 1999.

Activities

The principal activity of the Association during the year was the run off of the risks of Class II, Freight Demurrage and Defence business. There were no claims paid, and no estimates for outstanding claims are held, for Class III, Ships Officers and Crew Strikes, and Class IV, Port Area Strikes, and the risks of these Classes can be regarded as fully run off.

Financial Statements

The Income and Expenditure Account which is set out on pages 9 and 10 shows transactions resulting in a net amount receivable from The West of England Ship Owners Mutual Insurance Association (Luxembourg) by way of a reinsurance claim for Class II of US\$129,200 (1998 US\$195,749).

The financial statements have been prepared in accordance with Schedule 1, Part I of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 which amend section 255 and schedule 9A of the Companies Act 1985.

Review of the Business

Class II

Pursuant to the reinsurance agreement with The West of England Ship Owners Mutual Insurance Association (Luxembourg), this Association ceased to insure Class II risks after 20 February 1986 and from that date held all the assets of Class II as trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg). The business of Class II relating to risks insured prior to 20 February 1986 continued to be reinsured by The West of England Reinsurance (Hamilton) Limited on a quota-share basis with the residual result being fully reinsured by The West of England Ship Owners Mutual Insurance Association (Luxembourg). From 20 February 1992, the reinsurance of Class II by The West of England Reinsurance (Hamilton) Limited ceased.

A consolidated policy year statement has been drawn up on the same basis as in previous years and is set out on page 17. This incorporates the assets which were held by Class II of The West of England Reinsurance (Hamilton) Limited at 20 February 1992 and were transferred at that date to International Shipowners Reinsurance Company SA, a wholly owned subsidiary of The West of England Ship Owners Mutual Insurance Association (Luxembourg), and the income and expenditure since attributable to those assets.

**THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)**

REPORT OF THE DIRECTORS (continued)

The ultimate liability for outstanding and unnotified claims has been statistically projected and the relevant figures have been incorporated in the consolidated policy year statement referred to above. A number of assumptions have been made in arriving at the projected claims liabilities and the underlying claims estimates on which they are based, and, to the extent that time may alter the validity of those assumptions, the projected figures may vary significantly. The Board and Managers closely monitor the outstanding cases. 23 files now remain open (20 February 1998 26). The projected ultimate deficit of Class II has increased to US\$2.07 million (1998 US\$1.98 million).

Under the terms of the reinsurance agreement, all claims are subject to the approval of The West of England Ship Owners Mutual Insurance Association (Luxembourg).

Classes III and IV

Pursuant to the reinsurance agreement with The West of England Ship Owners Mutual Insurance Association (Luxembourg), this Association ceased to insure Class III and Class IV risks after 20 February, 1987 and from that date held all the assets of those Classes as Trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg). The reinsurance of these Classes by The West of England Reinsurance (Hamilton) Limited ceased on 20 February, 1992. As stated above, there were no transactions in the year for these Classes.

Directors

The Directors who are listed on page 1 held office throughout the year. In addition, Mr E R Lorenz-Meyer was a Director until his death on 18 August 1998. The Board would like to express their deep regret at this sad loss.

Mr J A Loutsis and Mr M T Los will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Managers

The Association holds, as a trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg), a minority shareholding in The West of England Ship Owners Insurance Services Limited and is managed by that company under the terms of an Agreement dated 16 February 1982. The Association has no employees. The Managers do not receive any commission in respect of reinsurance arrangements made.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
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REPORT OF THE DIRECTORS (continued)

Directors' Responsibilities

Company Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the income and expenditure of the Association for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable financial reporting and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 1985 as applicable to insurance companies. They are also responsible for safeguarding the assets of the Association and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Coopers & Lybrand resigned as auditors in favour of the new firm, PricewaterhouseCoopers and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Resolutions to appoint PricewaterhouseCoopers as Auditors of the Association and to authorise the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

Chairman

9 June 1999

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

REPORT OF THE AUDITORS

To the Members of

The West of England Ship Owners Mutual Insurance Association (London) Limited

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 8.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 4 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Association's affairs at 20 February 1999 and of the income and expenditure and cash flows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

We have also examined the appendix on pages 17 and 18 showing the Class II consolidated policy year statement. In our opinion this statement has been properly prepared in accordance with the notes thereto and with the accounting policies and financial statements on pages 6 to 16.

PricewaterhouseCoopers

Chartered Accountants & Registered Auditors
London

9 June 1999

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

ACCOUNTING POLICIES (forming part of the financial statements)

General

The financial statements have been prepared in accordance with applicable Accounting Standards. As stated in the Report of the Directors, the financial statements have been prepared in accordance with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (the "Regulations") which amend section 255 and schedule 9A of the Companies Act 1985. The Regulations use "Profit and Loss Account" as a heading, which is replaced by "Income and Expenditure Account" throughout these financial statements consistent with the mutual status of the Association.

Certain Balance Sheet reclassifications of comparatives have been made in these financial statements. There is no effect on the stated results of the Association.

Reinsurance and Pooling Arrangements

Class II

Reinsurance cover for Class II, on an excess of loss basis, has been effected with The West of England Ship Owners Mutual Insurance Association (Luxembourg) since 20 February 1982 and for New Building risks since 20 February 1985.

In exchange for The West of England Ship Owners Mutual Insurance Association (Luxembourg) agreeing on 18th October, 1985 to reinsure the totality of the risks insured by Class II up to 20 February 1986, this Association agreed from that date to hold all the assets pertaining to Class II as trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg) and to transfer them to that Association on demand. This right of transfer was exercised immediately upon the close of business on 20 February 1986 in respect of the Association's shareholding in the West of England Reinsurance (Hamilton) Limited. The business of Class II ceased on 20 February 1986 save for the purpose of winding up such business.

Class III and Class IV

The business of Class III and Class IV ceased on 20 February 1987 save for the purpose of winding up such business, which has been reinsured with The West of England Ship Owners Mutual Insurance Association (Luxembourg). The Association holds all the assets of Classes III and IV as trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg).

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

Accounting Policies - continued

Class I

The business of Class I, Protection and Indemnity, ceased from 20 February 1970. Special reinsurance arrangements for the relevant policy years up to and including 1969/70 have been made with The West of England Ship Owners Mutual Insurance Association (Luxembourg), as a result of which all claims payable after that date are recoverable in full either from that Association or other reinsurers. The amounts involved are excluded from the Income and Expenditure Account.

Basis of Insurance

Calls are levied on a policy year basis, Members remaining liable for their rateable proportion of any excess of claims and expenses over income in respect of the particular Class in which they are entered, which obligation continues despite the reinsurance arrangements with The West of England Ship Owners Mutual Insurance Association (Luxembourg). Claims are included in policy years by reference to the date of the incident and reinsurance recoveries are allocated accordingly. Reinsurance premiums are charged to the policy year to which the cover relates.

Premiums

Calls, premiums and releases are credited to the Income and Expenditure Account when invoiced. Reinsurance premiums are charged to the Income and Expenditure Account on an accruals basis.

Investment Income

Bank and other interest is credited to the Income and Expenditure Account as earned. For Class II, investment income may be allocated to policy years at the discretion of the Directors.

Transfer of investment return

A transfer of investment return, including unrealised exchange gains and losses, expenses and charges, is made from the non-technical account to the technical account to reflect the return made on those assets directly attributable to the insurance business.

Debtors

Full provision is made for all amounts owing which are more than one year in arrears and in respect of other balances considered to be doubtful.

Claims Paid

Claims are charged to the Income and Expenditure Account when they have been passed by the Directors. Credit is taken for reinsurance recoveries due in respect of claims accounted for at the Balance Sheet date.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

Accounting Policies - continued

Claims Outstanding

Statistical projections are calculated for claims outstanding at the Balance Sheet date based upon paid claims and estimates of notified outstanding claims. Significant delays may occur before claims are settled and, accordingly, a substantial measure of experience and judgement is required in assessing the ultimate cost of outstanding and unnotified claims, which cannot be known with certainty at the Balance Sheet date. The figures include provision for claims handling costs.

Operating Expenses

Management and other expenses are dealt with on an accruals basis. Claims handling expenses are allocated to claims paid.

Foreign Currencies

Transactions in currencies other than US Dollars are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in currencies other than US Dollars are translated using the rate of exchange ruling at the Balance Sheet date. Exchange differences on translation are included in the Income and Expenditure Account.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

INCOME & EXPENDITURE ACCOUNT
for the year ended 20 February 1999

TECHNICAL ACCOUNT – General Business

	Note	1999 Class II US\$	1998 Class II US\$
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		-	-
Allocated investment return transferred from the non-technical account		1,393	1,306
Total technical income		1,393	1,306
Gross claims paid	1	(106,856)	(149,910)
Reinsurers' share		106,856	149,910
Net claims paid		-	-
Gross change in the provision for claims		49,622	169,757
Reinsurers' share		(49,622)	(169,757)
Net change in the provision for claims		-	-
Claims incurred net of reinsurance		-	-
Reinsurers' share of other expenditure		22,344	45,839
Net operating expenses	2	(24,133)	(46,828)
Total technical charges		(1,789)	(989)
Balance on the general business technical account		(396)	317

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

INCOME & EXPENDITURE ACCOUNT
for the year ended 20 February 1999

NON-TECHNICAL ACCOUNT	Note	1999 Class II US\$	1998 Class II US\$
Balance on the general business technical account		(396)	317
Investment income		1,421	1,348
Allocated investment return transferred to the general business technical account		(1,393)	(1,306)
Other income/(charges)		396	(317)
Surplus on ordinary activities before tax		28	42
Tax on surplus on ordinary activities	3	(28)	(42)
Balance on ordinary activities after tax		-	-

There are no Income & Expenditure Account movements for Classes III and IV. There are no recognised gains or losses for the year other than those shown in the above Income and Expenditure Account. All of the results are in respect of discontinued operations.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

BALANCE SHEET
at 20 February 1999

ASSETS	Note	1999 US\$	1998 US\$
Investments			
Financial investments	4	<u>1,844</u>	<u>1,863</u>
Reinsurers' share of technical provisions			
Claims outstanding		<u>85,446</u>	<u>135,068</u>
Debtors			
Members debtors		6,625	-
Arising out of reinsurance operations	6	6,030	-
Other debtors		930	992
		<u>13,585</u>	<u>992</u>
Other assets			
Cash at bank and in hand		<u>26,455</u>	<u>51,619</u>
Prepayments and accrued income			
Accrued interest		<u>13</u>	<u>37</u>
TOTAL ASSETS		<u>127,343</u>	<u>189,579</u>

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

BALANCE SHEET
at 20 February 1999

LIABILITIES	Note	1999 US\$	1998 US\$
Capital and reserves			
Income and expenditure account		-	-
Technical provisions			
Claims outstanding	5	85,446	135,068
Creditors			
Arising out of direct insurance operations		6,033	6,633
Arising out of reinsurance operations	6	-	7,257
Amounts owed to credit institutions		26,943	31,487
Other creditors including taxation and social security		8,921	9,134
		41,897	54,511
TOTAL LIABILITIES		127,343	189,579

Chairman

Director

9 June 1999

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

CASH FLOW STATEMENT
for the year ended 20 February 1999

	Note	1999 \$	1998 \$
Surplus on ordinary activities before tax			
Operating surplus before taxation after interest		28	42
(Increase)/Decrease in debtors		(12,569)	5,614
(Decrease)/Increase in creditors		(8,070)	5,257
Decrease in technical provisions		(49,622)	(169,757)
Decrease in reinsurers' share of technical provisions		49,622	169,757
Valuation adjustments on investments	8	19	(27)
Net cash inflow from operating activities		<u>(20,592)</u>	<u>10,886</u>
Tax paid		(28)	(42)
		<u>(20,620)</u>	<u>10,844</u>

CASH FLOWS WERE INVESTED AS FOLLOWS:

(Decrease)/Increase in cash holdings	8	<u>(20,620)</u>	<u>10,844</u>
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THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

NOTES (forming part of the financial statements)

1. Gross Claims Paid	1999	1998
	US\$	US\$
Claims paid	102,577	143,166
Claims handling expenses	4,279	6,744
	<u>106,856</u>	<u>149,910</u>
 2. Net Operating Expenses	 1999	 1998
	US\$	US\$
Audit fees	4,576	4,620
Auditors' remuneration for other services	3,661	3,713
Directors' fees	6,691	24,306
Other operating expenses	13,484	20,933
	<u>28,412</u>	<u>53,572</u>
Less claims handling expenses	(4,279)	(6,744)
	<u>24,133</u>	<u>46,828</u>

3. Taxation

The charges in the Income and Expenditure Account represent UK Corporation Tax on taxable interest and investment income at 21% (1998 21%). The UK tax liabilities of this Association and of The West of England Ship Owners Mutual Insurance Association (Luxembourg) and its subsidiaries are subject to an agreement with the Inland Revenue whereby tax is accounted for by the West of England Ship Owners Mutual Insurance Association (Luxembourg) on behalf of all the companies concerned. The charges shown are calculated as if this Association were taxed on a stand-alone basis. Liabilities shown are owed, as reimbursement, to The West of England Ship Owners Mutual Insurance Association (Luxembourg).

	1999	1998
	US\$	US\$
Corporation Tax charged	<u>28</u>	<u>42</u>

The provision for Corporation Tax is \$28 (1998 \$42).

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

NOTES (forming part of the financial statements) - continued

4. Financial Investments

	Cost	Cost	Directors' Valuation	Directors' Valuation
	1999 US\$	1998 US\$	1999 US\$	1998 US\$
Unquoted investments	<u>1,844</u>	<u>1,863</u>	<u>1,844</u>	<u>1,863</u>

5. Claims Outstanding

Claims outstanding represents the projected cost of outstanding and unnotified claims for all policy years. The figures are calculated with actuarial assistance and include provision for claims handling costs. In arriving at these figures, a number of important assumptions has been made and to the extent that time may alter the validity of those assumptions, the projected figures may vary significantly.

6. Ownership of Net Assets

The assets of this Association are held on trust for The West of England Ship Owners Mutual Insurance Association (Luxembourg); the net balance due to that Association is included above in debtors (1998 creditors) arising out of reinsurance operations.

7. The West of England Ship Owners Insurance Services Ltd.

The Association holds 11% of the Ordinary shares of £1 each of The West of England Ship Owners Insurance Services Limited as trustee for The West of England Ship Owners Mutual Insurance Association (Luxembourg). The West of England Ship Owners Insurance Services Limited provides insurance services for this and other Associations.

8. Note to the cash flow statement

Movement in cash and portfolio investments	At 20 Feb 1998	Cash flow	Market value changes	At 20 Feb 1999
	\$	\$	\$	\$
Cash at bank and in hand	51,619	(25,164)	-	26,455
Bank overdraft	(31,487)	4,544	-	(26,943)
Unquoted investments	1,863	-	(19)	1,844
Total	<u>21,995</u>	<u>(20,620)</u>	<u>(19)</u>	<u>1,356</u>

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

NOTES (forming part of the financial statements) - continued

9. Guarantee

Under the Memorandum of Association, the Association is limited by guarantee not exceeding £5 per Member for every 100 tons or part of 100 tons entered.

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

**APPENDIX I – Class II Consolidated Policy Year Statement at 20 February 1999
for all years up to and including 1985/86 (Note 2)**

	80/81 & Prior	81/82	82/83	83/84	84/85	85/86	Policy Year Reserve Account	Allocation Account (Note 3)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Calls		5,873	6,101	5,536	4,768	4,281	12,642		
Reinsurance premiums		(375)	(418)	(424)	(452)	(348)			
Net premiums		5,498	5,683	5,112	4,316	3,933			
Investment income after taxation		110	101	193	153	-		1,515	
Differences on exchange		380	294	125	(254)	-			
		5,988	6,078	5,430	4,215	3,933			
Management expenses (including Audit Fee and Directors' Fees)		(557)	(690)	(804)	(644)	(990)	(2,290)		
Net income		5,431	5,388	4,626	3,571	2,943	10,352	1,515	
Net claims paid		5,731	4,879	3,650	4,013	2,032	-	-	
Balance before Outstanding and unnotified claims	(15,502)	(300)	509	976	(442)	911	10,352	1,515	(1,981)
Projected Outstanding and unnotified claims	-	(10)	-	(12)	(53)	(10)	-	-	(85)
Projected balance	(15,502)	(310)	509	964	(495)	901	10,352	1,515	(2,066)

THE WEST OF ENGLAND SHIP OWNERS MUTUAL
INSURANCE ASSOCIATION (LONDON) LIMITED
(Limited by Guarantee)

NOTES to the Class II Consolidated Policy Year Statement at 20 February 1999

1. This appendix combines the results of Class II of The West of England Ship Owners Mutual Insurance Association (London) Limited with Class II of The West of England Reinsurance (Hamilton) Limited which was, until 20 February 1986, wholly owned by the Association and which undertook reinsurance of the Association until 20 February 1992.
2. Until 20 February 1984, all accounting records were maintained in sterling and in so far as the figures at that date are included above, they have been translated into US Dollars at the rate ruling on 20 February 1984.
3. The Allocation Account, represents investment income earned and exchange differences for the fourteen years ended 20 February 1999.
4. The figures for projected outstanding and unnotified claims represent the projected ultimate liabilities remaining for the policy years shown. In arriving at these figures, a number of important assumptions has been made and to the extent that time may alter the validity of those assumptions, the projected figures may vary significantly.
5. For the purpose of this Statement, claims paid exclude claims handling expenses allocated to claims. These are included in Management expenses. Provision is made in outstanding and unnotified claims for future claims handling costs.