THE TOKIO MARINE & FIRE INSURANCE COMPANY (UK) LIMITED

Report and Accounts

31 December 2000

ERNST & YOUNG



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COMPANIES HOUSE
0319
17/05/01

The Tokio Marine & Fire Insurance Company (UK) Limited

Registered No. 989421

DIRECTORS

R N Bowes	Chairman
S Sumi	Chief Executive
H Narimatsu	
H Wada	
A L Brend	
H Saito	
T Oka	
T Suzuki	

SECRETARY

T Marshall

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

The Bank of Toyko - Mitsubishi Limited
6 Broadgate
London EC2M 2SX

SOLICITORS

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

REGISTERED OFFICE

150 Leadenhall Street
London EC3V 4TE

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DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITY

The group's principal activity continues to be underwriting marine, transport and non-marine insurance business in the United Kingdom, and in Europe through a branch office in France and agencies in other countries.

RESULTS

The group has adopted the annual basis of accounting for the presentation of its financial statements this year and accordingly the accounts for the previous year have been restated on this basis.

The gross premium earned for the group was £87.5 million, an increase of £26.9 million compared to the gross premium earned for 1999 of £60.6 million. The increase was due to the acceptance of reinsurance business, which was wholly reinsured with our parent company.

The net premium earned for 2000 was £28.2 million, a decrease of £3.1 million compared to the net premium earned for last year of £31.3 million.

The incurred net loss ratio has deteriorated to 92% from 72% last year. This was due to an increase in direct Employer's Liability claims in the UK and a deterioration in the run-off of the general London Market stamp business.

The group is actively targeting improvements in the Employer's Liability account and has strengthened reserves relating to this area of business.

The deterioration in the general London Market stamp business was mainly due to an increase in asbestos-related claims.

The investment income for the group was £7.6 million compared to the previous year's £6.9 million. The group also benefited from unrealised investment gains of £2.0 million this year against unrealised investment losses last year of £1.9 million. This positive investment performance was due to increases in interest rates during the year and gains in bond prices towards the end of the year. The group continues to follow a conservative investment approach, mainly placing funds in Money Markets and Bond Markets, however with interest rates now falling, it is unlikely that the improved performance can be sustained during 2001.

The group profit after tax was £1.6 million, compared to last year's restated group profit of £3.6 million. The group recorded a small exchange gain of £0.3 million this year against exchange losses of £2.5 million last year, resulting in an increase in Shareholders' Funds of £1.9 million this year compared to an increase of £1.1 million in 1999.

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DIRECTORS' REPORT

FUTURE DEVELOPMENTS

The implementation of new systems and the integration with the current systems continue to be a priority for the group. This work will encompass the implementation of a new underwriting system and integration with accounting systems during the coming year.

The directors are pleased to report on the sixth successive profitable year for the group and would like to thank all of our clients, brokers, agents and staff for their continued support and contribution to the success of the group.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year are listed on page 1.

Mr Shiozawa and Mr M Goto also served as directors until their resignations on 1 July 2000. Mr H Wada served as Chief Executive until the same date and he remains a non-executive director of the company. Mr S Sumi was appointed as Chief Executive and Mr H Saito was appointed as a director on 1 July 2000. The directors would like to thank Mr Wada, Mr Shiozawa and Mr Goto for their contributions to the group and to welcome their successors to the Board.

Mr Sumi brings to the group the benefits of his experience gained over 30 years with the parent company in Japan, most recently as General Manager in Commercial Underwriting operations. Mr Wada is returning to Japan following his promotion within the parent company to Managing Director with responsibility for Overseas Operations.

According to the register kept by the company pursuant to Section 325 of the Companies Act 1985 (as amended), no director had at any time during the year any interest in the shares or debentures which he was under an obligation to notify to the company by virtue of Section 324 of that Act.

At no time during the year have there subsisted any arrangements, to which the company was a party, to enable directors to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

For further disclosure of directors' interests under the Companies Act see note 22.

AUDITORS

A resolution reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, to be called Ernst & Young LLP. If this happens, it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By order of the board

T Marshall
Secretary

150 Leadenhall Street
London EC3V 4TE

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which show a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company 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 group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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REPORT OF THE AUDITORS
to the members of The Tokio Marine & Fire Insurance Company (UK) Limited

We have audited the accounts on pages 6 to 27, which have been prepared on the basis of the accounting policies set out on pages 13 and 14.

Respective responsibilities of directors and auditors
As described on page 4 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2000 and the effect of the movement in those reserves during the year on the general business technical result and profit before tax are disclosed in note 16.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London
30 April 2001

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
TECHNICAL ACCOUNT - GENERAL BUSINESS					
Gross premiums written		93,386,131		60,903,020	
Outward reinsurance premiums		65,226,694		32,647,537	
Net premiums written			28,159,437		28,255,483
Change in the gross provision for unearned premiums		(5,916,129)		(292,055)	
Change in the provision for unearned premiums, reinsurers' share		(5,914,083)		(3,344,545)	
Change in the net provision for unearned premiums			(2,046)		3,052,490
Earned premiums net of reinsurance	3		28,157,391		31,307,973
Gross claims paid		(20,091,419)		59,169,986	
Reinsurers' share		(42,585,372)		36,253,159	
Net claims paid			(22,493,953)		(22,916,827)
Gross change in the provision for claims		(68,839,603)		(14,402,384)	
Reinsurers' share		(65,307,546)		(14,839,025)	
Net change in the provision for claims			(3,532,057)		436,641
Claims incurred net of reinsurance	4		(26,026,010)		(22,480,186)
Net operating expenses	5		(10,114,395)		(10,298,209)
Total technical charges			(36,140,405)		(32,778,395)
TRANSFER TO CLAIMS EQUALISATION RESERVE	16		437,708		495,784
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			(7,545,306)		(974,638)

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GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
NON-TECHNICAL ACCOUNT					
Balance on the general business technical account		(7,545,306)		(974,638)	
Investment income	9	7,656,318		6,874,056	
Unrealised gains on investments		1,957,354		–	
			2,068,366		5,899,418
Investment expenses and charges -					
Investment management expenses		315,804		371,770	
Realised losses on investments		261,660		–	
Unrealised losses on investments		–		1,873,501	
			(577,464)		(2,245,271)
Other income		1,295,629		1,100,124	
Other expenses		592,137		577,528	
			703,492		522,596
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			2,194,394		4,176,743
Tax on profit on ordinary activities	10		(629,007)		(545,726)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			1,565,387		3,631,017

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2000

	2000 £	1999 £
Profit on ordinary activities after taxation	1,565,387	3,631,017
Exchange gain/(loss)	340,515	(2,526,484)
Total recognised gains for the year	1,905,902	1,104,533
Prior year adjustment(as explained in note 2)	(261,117)	–
Total recognised gains and losses since last year's report and accounts.	1,644,785	1,104,533

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly a separate note of historical cost profits and losses is not given.

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GROUP BALANCE SHEET
at 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
ASSETS					
INVESTMENTS	11				
Other financial investments		77,087,682		71,135,893	
Deposits with ceding undertakings		2,161,085		2,170,773	
			79,248,767		73,306,666
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Provision for unearned premiums		12,949,929		6,584,523	
Claims outstanding - reinsurance	15	171,618,398		101,706,235	
			184,568,327		108,290,758
DEBTORS					
Policyholders		533,293		627,660	
Intermediaries		17,265,964		10,513,088	
Arising out of direct insurance operations		17,799,257		11,140,748	
Arising out of reinsurance operations -	group	6,626,668		5,513,230	
-	other	15,499,041		13,986,812	
Other debtors		1,513,237		874,530	
Other amounts due from group undertakings		82,795		54,897	
			41,520,998		31,570,217
OTHER ASSETS					
Tangible assets	12	1,444,846		721,897	
Taxation recoverable		1,654,898		1,033,909	
Cash at bank and in hand	13	63,433,933		60,456,384	
			66,533,677		62,212,190
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest		1,068,432		958,622	
Deferred acquisition costs		3,283,445		2,152,088	
Other prepayments		112,854		89,427	
			4,464,731		3,200,137
TOTAL ASSETS			376,336,500		278,579,968

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GROUP BALANCE SHEET
at 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	14	35,000,000		35,000,000	
Share premium		30,000,000		30,000,000	
Profit and loss account		(10,996,495)		(12,902,397)	
Shareholder funds attributable to equity interests	18		54,003,505		52,097,603
TECHNICAL PROVISIONS					
Provision for unearned premiums		16,355,921		9,826,997	
Claims outstanding - gross amount	15	271,669,938		194,917,685	
Claims equalisation reserve	16	1,020		438,728	
			288,026,879		205,183,410
DEPOSITS RECEIVED FROM REINSURERS					
- group		349,994		323,907	
- other		3,310,513		3,264,793	
			3,660,507		3,588,700
CREDITORS					
Arising out of direct insurance operations		7,859,239		2,484,399	
Arising out of reinsurance operations -	group	4,707,838		2,857,717	
-	other	10,295,806		7,150,449	
Other creditors including taxation and social security		2,698,662		2,245,318	
Other amounts owed to group undertakings		783,305		259,805	
Amounts owed to credit institutions	20	4,345		25,434	
			26,349,195		15,023,122
ACCRUALS AND DEFERRED INCOME			4,296,414		2,687,133
TOTAL LIABILITIES			376,336,500		278,579,968

Approved at a meeting of the Board of Directors on 30 April 2001 and signed on its behalf.

S Sumi Director

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BALANCE SHEET
at 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
ASSETS					
INVESTMENTS	11				
Shares in group undertakings		2,351,886		2,351,886	
Other financial investments		77,087,682		71,135,893	
Deposits with ceding undertakings		2,161,085		2,170,773	
			81,600,653		75,658,552
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Provision for unearned premiums		12,949,929		6,584,523	
Claims outstanding - reinsurance	15	171,618,398		101,706,235	
			184,568,327		108,290,758
DEBTORS					
Policyholders		533,293		627,660	
Intermediaries		17,265,964		10,513,088	
Arising out of direct insurance operations		17,799,257		11,140,748	
Arising out of reinsurance operations - group		6,626,668		5,513,230	
- other		15,499,041		13,986,812	
Other debtors		1,502,536		834,305	
Other amounts due from group undertakings		11,790		36,997	
			41,439,292		31,512,092
OTHER ASSETS					
Tangible assets	12	1,420,910		695,739	
Taxation recoverable		1,654,898		1,033,909	
Cash at bank and in hand	13	62,964,427		59,912,800	
			66,040,235		61,642,448
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest		1,068,396		958,168	
Deferred acquisition costs		3,283,445		2,152,088	
Other prepayments		112,854		89,427	
			4,464,695		3,199,683
TOTAL ASSETS			378,113,202		280,303,533

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BALANCE SHEET
at 31 December 2000

	Notes	2000 £	2000 £	1999 £ Restated	1999 £ Restated
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	14	35,000,000		35,000,000	
Share premium		30,000,000		30,000,000	
Profit and loss account		(12,302,612)		(14,091,512)	
Shareholder funds attributable to equity interests	18		52,697,388		50,908,488
TECHNICAL PROVISIONS					
Provision for unearned premiums		16,355,921		9,826,997	
Claims outstanding - gross amount	15	271,669,938		194,917,685	
Claims equalisation reserve	16	1,020		438,728	
			288,026,879		205,183,410
DEPOSITS RECEIVED FROM REINSURERS					
- group		349,994		323,907	
- other		3,310,513		3,264,793	
			3,660,507		3,588,700
CREDITORS					
Arising out of direct insurance operations		7,859,239		2,484,399	
Arising out of reinsurance operations - group		4,707,838		2,857,717	
- other		10,295,806		7,150,449	
Other creditors including taxation and social security		2,830,436		2,352,207	
Other amounts owed to group undertakings		3,786,843		3,068,770	
Amounts owed to credit institutions	20	4,345		25,434	
			29,484,507		17,938,976
ACCRUALS AND DEFERRED INCOME			4,243,921		2,683,959
TOTAL LIABILITIES			378,113,202		280,303,533

Approved at a meeting of the Board of Directors on 30 April 2001 and signed on its behalf

S Sumi Director

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COMPANIES HOUSE 17/05/01

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GROUP STATEMENT OF CASH FLOWS
for the year ended 31 December 2000

	Note	2000 £	1999 £
NET CASH INFLOW/(OUTFLOW) FROM ORDINARY ACTIVITIES	17(a)	5,405,140	(1,610,298)
INTEREST PAID	17(b)	(2,590)	(4,599)
TAXATION PAID		(158,590)	(154,661)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS	17(b)	(1,257,524)	(185,285)
FINANCING		(21,089)	(34,109)
		3,965,347	(1,988,952)
Cash flows were invested as follows:			
(DECREASE)/INCREASE IN CASH		(9,875,321)	3,113,323
INCREASE/(DECREASE) IN PORTFOLIO INVESTMENT	17(b)	13,840,668	(5,102,275)
NET INVESTMENT OF CASH FLOWS		3,965,347	(1,988,952)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET PORTFOLIO INVESTMENT

	Note	2000 £	1999 £
(Decrease)/increase in cash		(9,875,321)	3,113,323
Increase/(decrease) in portfolio investment		13,840,668	(5,102,275)
Repayment of capital element of finance leases		21,089	34,109
Change in net portfolio investment resulting from cash flows	17(c)	3,986,436	(1,954,843)
New finance leases		–	–
Changes in market value and currencies		4,963,987	(3,124,000)
MOVEMENT IN NET PORTFOLIO INVESTMENT		8,950,423	(5,078,843)
NET PORTFOLIO INVESTMENT AT 1 JANUARY	17(c)	131,556,847	136,635,690
NET PORTFOLIO INVESTMENT AT 31 DECEMBER	17(c)	140,507,270	131,556,847

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NOTES TO THE ACCOUNTS
at 31 December 2000

1. ACCOUNTING POLICIES

Disclosure requirements
The accounts have been prepared in compliance with the special provisions relating to insurance companies of section 255 of, and Schedule 9A to, the Companies Act 1985.

Standard accounting practice
The accounts comply with applicable accounting standards. In addition, the company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

Basis of accounting
The annual basis of accounting has been applied to all classes of business.

Premiums
Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums included in the profit and loss account relate to continuing operations.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Outstanding claims
Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs, anticipated inflation and settlement trends. A provision for claims incurred but not reported is established on a statistical basis, including a provision for unexpired risks if necessary. Any differences between these provisions and subsequent settlements are dealt with in the technical accounts of later years.

Future claims handling expenses are calculated separately for direct business and non-proportional treaty business based on expenses incurred during the year and the number of years for which claims are expected to continue being reported. The company does not incur significant claims handling expenses for stamp business and proportional treaty business.

Investment income
Investment income comprises interest receivable and dividends received, together with realised investment gains. Realised gains are calculated as the difference between sales proceeds and cost or, if previously revalued, the valuation as at the last balance sheet date.

Investments
All investments are stated at current value in the balance sheet. Unrealised gains and losses are taken to the profit and loss account.

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1. **ACCOUNTING POLICIES** (continued)

Depreciation
Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of the acquisition, of each asset over its expected useful life as follows:

Computer equipment	4 years
Motor vehicles	4 years
Furniture and other equipment	6 years
Office refurbishments	10 years

Leasing and hire purchase commitments
Rentals paid under operating leases are charged to income on a straight line over the lease term. Rentals paid under finance leases are charged to income and capital on a straight line basis over the lease term.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies
Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Revenue transactions of overseas agencies and transactions in the London market accounts are translated to sterling at rates of exchange ruling at the end of the year and other revenue transactions at the appropriate rates prevailing during the year. Exchange gains and losses for the year are taken directly to reserves. Technical provisions shown as brought forward in note 3 differ from technical provisions shown as carried forward as at the end of the previous financial year because of restatement at rates of exchange ruling at the end of the present financial year.

Unearned premiums provision
For business accounted on an annual basis, written premiums are recognised as earned income over the period of the policy on a time apportionment basis. The provision for unearned premiums is calculated on a daily pro rata basis.

Deferred acquisition costs
Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Pensions
The group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the group in an independently administered fund.

Basis of consolidation
The group accounts consolidate the accounts of The Tokio Marine & Fire Insurance Company (UK) Limited and all its subsidiary undertakings drawn up to 31 December each year.

No profit and loss account is presented for The Tokio Marine & Fire Insurance Company (UK) Limited as permitted by S230 of Companies Act 1985.

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2. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENT

The accounts for the year ended 31 December 1999 were prepared on the fund basis of accounting, under which premiums, claims and expenses were carried forward and profit recognition was delayed until the end of the third year from the start of an underwriting year. Any underwriting losses were recognised as soon as they were foreseen.

The accounts for the year ended 31 December 2000 have adopted the annual basis of accounting for all classes of business. The principal difference between annual accounting and fund accounting relates to the timing of recognition of underwriting results.

A reconciliation between the current year's results as published and the current and previous years' results under the fund basis of accounting is as follows:

	2000	*1999*
	£	£
Profit before tax under previous years' accounting policies	1,876,483	2,227,857
Adjustments to the balance on the technical account to recognise profit on an annual basis:		
(Increase)/decrease in net unearned premiums	(2,046)	3,052,490
Decrease in net deferred acquisition costs	(35,887)	(1,415,253)
Release of open year underwriting funds	(1,825,001)	2,485,649
Decrease/(increase) in IBNR due to release of open year funds	2,180,845	(2,174,000)
Profit before tax	2,194,394	4,176,743

3. EARNED PREMIUMS NET OF REINSURANCE

	Gross	*Reinsurance*	*Net*
	£	£	£
2000			
Premiums earned	87,470,002	59,312,611	28,157,391
1999 Restated			
Premiums earned	60,610,965	29,302,992	31,307,973

4. CLAIMS INCURRED NET OF REINSURANCE

	Gross	*Reinsurance*	*Net*
	£	£	£
2000			
Claims paid	(20,091,419)	(42,585,372)	22,493,953
Outstanding claims carried forward	271,669,938	171,618,398	100,051,540
Outstanding claims brought forward	202,830,335	106,310,852	96,519,483
Increase	68,839,603	65,307,546	3,532,057
Claims incurred	48,748,184	22,722,174	26,026,010

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4. CLAIMS INCURRED NET OF REINSURANCE (continued)

	Gross £	*Reinsurance* £	*Net* £
1999 Restated			
Claims paid	59,169,986	36,253,159	22,916,827
Outstanding claims carried forward	194,917,685	101,706,235	93,211,450
Outstanding claims brought forward	180,515,303	86,867,212	93,648,091
Increase/(decrease)	14,402,382	14,839,023	(436,641)
Claims incurred	73,572,368	51,092,182	22,480,186

Out of the net claims incurred figure £11.7 million (1999 - £9.6 million) relates to the difference between the loss provision made at the beginning of the year for outstanding claims incurred in previous years, and the payments made during the year and the loss provision shown at the end of the year in respect of such outstanding claims.

The gross paid claims for the year 2000 of £(20.1) million comprises £80.1 million incoming loss portfolio received and £60.0 million claims paid. Reinsurance recoveries for the year 2000 of £(42.6) million comprises £80.1 million incoming loss portfolio ceded and £37.5 million reinsurance recoveries. The incoming loss portfolio relates to a new acceptance of reinsurance business, which is wholly reinsured.

5. NET OPERATING EXPENSES

	Gross £	*Reinsurance* £	*Net* £
2000			
Acquisition costs	20,450,125	16,684,414	3,765,711
Change in deferred acquisition costs	(988,792)	(1,024,679)	35,887
	19,461,333	15,659,735	3,801,598
Administrative costs	6,312,797	–	6,312,797
	25,774,130	15,659,735	10,114,395
1999 Restated			
Acquisition costs	13,260,199	9,563,565	3,696,634
Change in deferred acquisition costs	178,611	(1,236,642)	1,415,253
	13,438,810	8,326,923	5,111,887
Administrative costs	5,186,322	–	5,186,322
	18,625,132	8,326,923	10,298,209

ERNST & YOUNG

6. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses include:

	2000	*1999*
	£	£
Depreciation	533,821	362,774
Auditors' remuneration, including expenses	87,674	82,500
Fees for non-audit services	15,665	6,050
Rentals - land and buildings	1,463,194	1,467,797
Interest element of finance lease	2,590	4,599

7. STAFF COSTS

	2000	*1999*
	£	£
Wages and salaries	1,919,584	1,995,707
Social security costs	480,379	528,144
Other pension costs	164,370	153,891
	2,564,333	2,677,742

The average weekly number of local employees, including executive directors, during the year was comprised as follows:

	2000	*1999*
	No.	*No.*
Underwriting	26	28
Claims	12	14
Administration	39	42
	77	84

In addition the group had certain staff seconded to it from the parent undertaking. The average number of seconded staff during the year was 22 (1999- 21) and their aggregate remuneration amounted to £1,009,915 (1999 - £1,243,161).

ERNST & YOUNG

8. DIRECTORS' EMOLUMENTS

Aggregate directors' emoluments

	2000 £	*1999* £
Services as directors of the company	290,520	261,997

The Chairman received no emoluments in either 2000 or 1999. The emoluments of the highest paid director were £68,040. The directors performed their duties to the group in accordance with contracts with the parent undertaking by whom they are employed.

9. INVESTMENT INCOME

	2000 £	*1999* £
Investment income	7,656,318	6,686,564
Realised gains	–	187,492
Total income	7,656,318	6,874,056

10. TAXATION

The charge for taxation comprises:

	2000 £	*1999* £
Overseas taxation	491,141	458,637
UK corporation tax of group undertakings at 30% (1999 – 30.25%)	133,779	86,592
Adjustments relating to prior years	4,087	497
	629,007	545,726

Overseas taxation relates to tax paid in the European branches which cannot be offset against UK tax losses.

ERNST & YOUNG

11a. INVESTMENTS

Group and Company	*Current value*		*Historical cost*	
	2000	*1999*	*2000*	*1999*
	£	£	£	£
Other financial investments				
- Unlisted equity shares	10,000	10,000	10,000	10,000
Listed debt securities and other listed fixed interest securities	77,077,682	71,125,893	75,894,744	71,851,492
	77,087,682	71,135,893	75,904,744	71,861,492
Deposit with cedant undertakings	2,161,085	2,170,773	2,161,085	2,170,773
Total group investments	79,248,767	73,306,666	78,065,829	74,032,265
Shares in group undertakings (11b)	2,351,886	2,351,886	2,351,886	2,351,886
Total company investments	81,600,653	75,658,552	80,417,715	76,384,151

11b. SHARES IN GROUP UNDERTAKINGS

Company

	£
Cost	
Tokio Marine Europe Limited	2,339,386
T.M. Management Services Limited	12,500
	2,351,886

Both subsidiaries are wholly owned and incorporated in Great Britain.

ERNST & YOUNG

12. TANGIBLE ASSETS

Company

	Office refurbishment £	*Computer equipment* £	*Motor vehicles* £	*Furniture and equipment* £	*Total* £
Cost:					
At 1 January 2000	291,146	1,899,626	233,844	883,596	3,308,212
Exchange adjustment	44	2,111	1,986	3,459	7,600
Additions	–	1,207,739	30,541	26,254	1,264,534
Disposals	–	(10,436)	(25,312)	(2,966)	(38,714)
At 31 December 2000	291,190	3,099,040	241,059	910,343	4,541,632
Depreciation:					
At 1 January 2000	269,830	1,485,189	149,058	708,396	2,612,473
Exchange adjustment	33	(30,577)	13,504	25,394	8,354
Provided during the year	17,064	420,543	34,999	54,336	526,942
Disposals	–	(10,437)	(13,780)	(2,830)	(27,047)
At 31 December 2000	286,927	1,864,718	183,781	785,296	3,120,722
Net book value:					
At 31 December 2000	4,263	1,234,322	57,278	125,047	1,420,910
At 31 December 1999	21,316	414,437	84,786	175,200	695,739

Group

Cost:					
At 1 January 2000	291,146	1,926,247	233,844	883,596	3,334,833
Exchange adjustment	44	2,111	1,986	3,459	7,600
Additions	–	1,207,983	30,541	30,667	1,269,191
Disposals	–	(10,436)	(25,312)	(2,966)	(38,714)
At 31 December 2000	291,190	3,125,905	241,059	914,756	4,572,910
Depreciation:					
At 1 January 2000	269,830	1,485,652	149,058	708,396	2,612,936
Exchange adjustment	33	(30,577)	13,504	25,394	8,354
Provided during the year	17,064	427,365	34,999	54,393	533,821
Disposals	–	(10,437)	(13,780)	(2,830)	(27,047)
At 31 December 2000	286,927	1,872,003	183,781	785,353	3,128,064
Net book value:					
At 31 December 2000	4,263	1,253,902	57,278	129,403	1,444,846
At 31 December 1999	21,316	440,595	84,786	175,200	721,897

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13. CASH AT BANK AND IN HAND

Cash at bank and in hand includes £3,013,147 (1999 - £3,074,367) held as collateral for letters of credit, of which £2,292,850 (1999 - £2,505,538) is held in accounts over which the issuing bank has a legal charge.

14. SHARE CAPITAL

	2000	*1999*
	£	£
Authorised		
Ordinary shares of £1 each	35,000,000	35,000,000
Issued and fully paid		
Ordinary shares of £1 each	35,000,000	35,000,000

15. CLAIMS OUTSTANDING

Group and Company	*Gross*	*Reinsurance*	*Net*
	£	£	£
2000			
Notified outstandings	118,107,089	69,293,645	48,813,444
Provision for claims incurred but not reported	151,446,929	102,324,753	49,122,176
	269,554,018	171,618,398	97,935,620
Claims handling expenses	2,115,920	–	2,115,920
	271,669,938	171,618,398	100,051,540
1999 Restated			
Notified outstandings	108,575,152	64,780,579	43,794,573
Provision for claims incurred but not reported	84,108,108	36,925,656	47,182,452
	192,683,260	101,706,235	90,977,025
Claims handling expenses	2,234,425	–	2,234,425
	194,917,685	101,706,235	93,211,450

The level of the above provision has been set on the basis of information which is currently available, including potential outstanding loss advices. The methods used, and the estimates made, are reviewed regularly. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in adjustments to the amounts provided. Adjustments to the amounts of provisions are reflected in the accounts for the period in which the adjustments are made.

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16. EQUALISATION RESERVES

Equalisation reserves comprise amounts set aside in accordance with the Insurance Companies (Reserves) Regulations 1995 to mitigate exceptional high loss ratios in future years for classes of business displaying a high degree of claims volatility. They are required by law to be included within technical provisions in the balance sheet. However, there was no liability for such amounts at the balance sheet date and, as such, these reserves are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. The movement in equalisation reserves during the year has had the effect of increasing the general business technical result before tax by £437,708 (1999 - £495,784) and reducing the balance on the reserve to £1,020.

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit on ordinary activities to net cash flow

	2000 £	*1999* £
Profit before tax on ordinary activities	2,194,394	4,176,743
Depreciation of tangible fixed assets	533,821	362,774
Increase/(decrease) in insurance technical provisions	3,096,394	(3,984,915)
Interest payable	68,299	116,777
Exchange gain/(loss)	798,088	(766,109)
(Profit)/loss on sale of fixed assets	–	(10,517)
Unrealised (gains)/losses on investments	(1,957,354)	1,873,501
Tax on unfranked investment income	(694,059)	(506,836)
Decrease in deposits with ceding undertakings	9,688	21,297
Increase in debtors	(11,659,845)	(1,977,538)
Increase/(decrease) in deposits received from reinsurers	71,807	(155,308)
Increase/(decrease) in creditors	12,943,907	(760,167)
Net cash inflow/(outflow) from operations	5,405,140	(1,610,298)

(b) Analysis of cash flows

	2000 £	*1999* £
Interest paid		
Bank interest paid	–	–
Interest element of finance leases	(2,590)	(4,599)
	(2,590)	(4,599)
Portfolio Investments		
Increase in funds on time deposit	(11,374,830)	(1,257,837)
Purchase of debt securities and other fixed interest securities	(81,685,785)	(115,088,773)
Sale of debt securities and other fixed interest securities	79,219,947	121,448,885
	(13,840,668)	5,102,275

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17. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Analysis of cash flows (continued)

	2000 £	*1999* £
Capital Expenditure and financial investments		
Payments to acquire tangible fixed assets	(1,269,191)	(232,839)
Receipts from sales of tangible fixed assets	11,667	15,620
Sale of investment securities	–	31,934
	(1,257,524)	(185,285)

(c) Movement in cash, portfolio investments and financing

	At 1 January 2000 £	*Cash flow* £	*Changes in market value and currencies* £	*New finance leases* £	*At 31 December 2000* £
Cash at bank and in hand	17,759,561	(9,875,321)	562,570	–	8,446,810
Funds on time deposit	42,696,823	11,374,830	915,470	–	54,987,123
Debt securities and other fixed interest securities	71,125,897	2,465,838	3,485,947	–	77,077,682
Amounts owed to credit institutions	(25,434)	21,089	–	–	(4,345)
	131,556,847	3,986,436	4,963,987	–	140,507,270

	At 1 January 1999 £	*Cash flow* £	*Changes in market value and currencies* £	*New finance leases* £	*At 31 December 1999* £
Cash at bank and in hand	14,936,208	3,113,323	(289,970)	–	17,759,561
Funds on time deposit	42,012,307	1,257,837	(573,321)	–	42,696,823
Debt securities and other fixed interest securities	79,746,718	(6,360,112)	(2,260,709)	–	71,125,897
Amounts owed to credit institutions	(59,543)	34,109	–	–	(25,434)
	136,635,690	(1,954,843)	(3,124,000)	–	131,556,847

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18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	Share capital £	*Share premium* £	*Profit and loss account* £	*Total* £
At 1 January 2000, as previously stated	35,000,000	30,000,000	(12,641,280)	52,358,720
Prior year adjustment	–	–	(261,117)	(261,117)
Balance at 1 January 2000, as restated	35,000,000	30,000,000	(12,902,397)	52,097,603
Foreign exchange gain	–	–	340,515	340,515
Retained profit for the financial year	–	–	1,565,387	1,565,387
At 31 December 2000	35,000,000	30,000,000	(10,996,495)	54,003,505
At 1 January 1999, as previously stated	35,000,000	30,000,000	(11,841,333)	53,158,667
Prior year adjustment	–	–	(2,165,597)	(2,165,597)
Balanced at 1 January 1999, as restated	35,000,000	30,000,000	(14,006,930)	50,993,070
Foreign exchange loss	–	–	(2,526,484)	(2,526,484)
Retained profit for the financial year	–	–	3,631,017	3,631,017
At 31 December 1999	35,000,000	30,000,000	(12,902,397)	52,097,603

Company

	Share capital £	*Share premium* £	*Profit and loss account* £	*Total* £
At 1 January 2000, as previously stated	35,000,000	30,000,000	(13,830,395)	51,169,605
Prior year adjustment	–	–	(261,117)	(261,117)
Balance at 1 January 2000, as restated	35,000,000	30,000,000	(14,091,512)	50,908,488
Foreign exchange gain	–	–	340,515	340,515
Retained profit for the financial year	–	–	1,448,385	1,448,385
At 31 December 2000	35,000,000	30,000,000	(12,302,612)	52,697,388
At 1 January 1999, as previously stated	35,000,000	30,000,000	(12,836,937)	52,163,063
Prior year adjustment	–	–	(2,165,597)	(2,165,597)
Balance at 1 January 1999, as restated	35,000,000	30,000,000	(15,002,534)	49,997,466
Foreign exchange loss	–	–	(2,526,484)	(2,526,484)
Retained profit for the financial year	–	–	3,437,506	3,437,506
At 31 December 1999	35,000,000	30,000,000	(14,091,512)	50,908,488

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NOTES TO THE ACCOUNTS
at 31 December 2000

19. SEGMENTAL INFORMATION

	Direct Marine and Aviation £	*Direct Property Damage* £	*Direct Liability* £	*Direct Others* £	*Reinsurance* £	*Total* £
2000						
Gross premiums written						
- UK	3,781,457	4,146,619	3,618,919	2,547,546	1,877,177	15,971,718
- Europe	12,310,728	7,075,945	2,476,908	1,750,262	1,688,972	25,302,815
- USA	–	–	–	–	49,373,924	49,373,924
- Other	1,188	4,029	1,458	–	2,730,999	2,737,674
	16,093,373	11,226,593	6,097,285	4,297,808	55,671,072	93,386,131
Gross premiums earned	15,990,274	11,678,797	5,988,195	4,252,308	49,560,428	87,470,002
Gross claims incurred	(9,000,790)	(4,440,747)	(7,205,582)	(2,767,103)	(25,333,962)	(48,748,184)
Gross operating expenses	(5,514,012)	(3,681,874)	(1,894,101)	(1,238,471)	(13,445,672)	(25,774,130)
Gross technical result	1,475,472	3,556,176	(3,111,488)	246,734	10,780,794	12,947,688
Reinsurance balance	3,130,810	2,609,542	8,029,761	(460,131)	7,620,720	20,930,702
Net technical result	(1,655,338)	946,634	(11,141,249)	706,865	3,160,074	(7,983,014)
Net technical provisions	14,843,793	6,260,265	34,331,114	1,697,440	46,324,920	103,457,532
1999 restated						
Gross premiums written						
- UK	4,230,976	5,653,858	2,630,911	2,652,758	2,148,286	17,316,789
- Europe	11,876,559	7,320,342	2,167,378	1,874,519	1,543,801	24,782,599
- USA	–	–	–	–	16,668,183	16,668,183
- Other	–	–	–	–	2,135,449	2,135,449
	16,107,535	12,974,200	4,798,289	4,527,277	22,495,719	60,903,020
Gross premiums earned	16,100,034	12,519,522	4,907,655	4,715,197	22,368,557	60,610,965
Gross claims incurred	(26,850,468)	(9,295,180)	(7,918,957)	(3,397,704)	(26,110,059)	(73,572,368)
Gross operating expenses	(5,169,796)	(3,730,473)	(1,433,735)	(1,254,513)	(7,036,618)	(18,625,135)
Gross technical result	(15,920,230)	(506,131)	(4,445,037)	62,980	(10,778,120)	(31,586,538)
Reinsurance balance	(16,390,801)	(956,477)	(1,034,988)	(84,391)	(11,649,459)	(30,116,116)
Net technical result	470,571	450,346	(3,410,049)	147,371	871,339	(1,470,422)
Net technical provisions	16,804,535	4,911,565	23,087,012	856,843	50,793,969	96,453,924

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19. SEGMENTAL INFORMATION (continued)

Commissions payable in respect of direct insurance business amounting to £7,203,926 (1999 - £7,089,913) are included in gross operating expenses.

20. AMOUNTS OWED TO CREDIT INSTITUTIONS

Obligations under finance leases are as follows:

	Group and Company	
	2000	*1999*
	£	£
Within one year	4,345	25,434
Between two to five years	–	–
	4,345	25,434

Annual commitments under operating leases are as follows:

	Land and buildings		*Other leases*	
	2000	*1999*	*2000*	*1999*
	£	£	£	£
Operating leases which expire:				
Within one year	107,063	15,201	–	–
Between two to five years	273,114	653	24,622	59,497
In over five years	1,562,386	1,493,871	–	499

21. PENSION COMMITMENTS

The group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

22. DIRECTORS' INTERESTS IN CONTRACTS

The undermentioned directors and where applicable, connected persons as defined by Section 346 Companies Act 1985 (as amended), are underwriting members of Lloyd's.

R N Bowes

The company, during the normal course of its business, reinsures and is reinsured by syndicates in which the above participate on the same basis as it does with other Lloyd's Syndicates.

23. TRUST FUND

At 31 December 2000 there existed a trust fund of US$8,428,320 (£5,656,591) (1999 - US$7,941,210 (£4,932,429) established at the Industrial Bank of Japan New York, as security in respect of insurance business emanating from the United States of America.

From 1 January 1996 the group withdrew from writing US business but the trust fund must be maintained for 5 years.

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24. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption available under FRS 8 paragraph 3 section (c), which does not require disclosure in the financial statements of related party transactions where 90% or more of the company's voting rights are controlled within the group.

25. PARENT COMPANY

The immediate and ultimate parent company is The Tokio Marine & Fire Insurance Company Limited, 2-1, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, which is incorporated in Japan. The Tokio Marine & Fire Insurance Company Limited is the parent of the largest group of undertakings for which group accounts are prepared and of which The Tokio Marine & Fire Insurance Company (UK) Limited is a member.

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OFFICES OF THE COMPANY

Registered Office:	150 Leadenhall Street, London EC3V 4TE
Underwriting Rooms:	150 Leadenhall Street, London EC3V 4TE Lloyd's of London, 1 Lime Street, London EC3M 7HA
Agencies and Branches:	
Belgium:	
Marine:	Fortis Corporate Insurance Marine NV Antwerp Tower, De Keyserlei 5 Box 6 B-2018 Antwerp, Belgium
Non-Marine:	Fortis Corporate Insurance NV Manhattan Centre Avenue de Boulevard Bolverklaan 21 B-1210, Brussels, Belgium
Denmark:	
Marine and non-marine:	Hansen & Klein Insurance Management Limited A/S 9 Dronningens Tværgade, DK-1302 Copenhagen K,
France:	
Marine and non-marine:	The Tokio Marine & Fire Insurance Company (UK) Ltd 21 Boulevard de la Madeleine 75038 Paris Cedex 01, France
Germany:	
Marine and non-marine:	The Tokio Marine & Fire Insurance Company (UK) Ltd Immermannstrasse 45 D-40210 Dusseldorf, Germany
Greece:	
Marine and non-marine:	Willis Kendriki S.A. 44 Ermou Street, Athens 10563, Greece
Holland:	
Marine and non-marine:	The Tokio Marine & Fire Insurance Company (UK) Ltd Professor J H Bavincklaan 5 1183 AT Amsterlveen The Netherlands
Italy:	
Marine and non-marine:	The Tokio Marine & Fire Insurance Company (UK) Ltd c/o Allianz Subalpina S.p.A Via Turati 20121, Milan, Italy
Norway:	
Marine and non-marine:	Citius Insurance AS Drammenveien 145b P.O. Box 170 Skøyen, N-0212 Oslo, Norway
Spain:	
Marine and non-marine:	The Tokio Marine & Fire Insurance Company (UK) Ltd c/o Plus Ultra S.A. via Augusta 281-285 08017 Barcelona, Spain

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