TOKIO MARINE EUROPE INSURANCE LIMITED

(FORMERLY THE TOKIO MARINE & FIRE INSURANCE COMPANY (UK) LIMITED)

Report and Accounts

31 December 2002

ERNST & YOUNG



Tokio Marine Europe Insurance Limited
(formerly The Tokio Marine & Fire Insurance Company (UK) Limited)

Registered No. 989421

DIRECTORS

A Takechi	Chief Executive
H Wada	
A L Brend	
T Oka	
T Suzuki	
J Ida	

SECRETARY

T Marshall

AUDITORS

Ernst & Young LLP
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

ERNST & YOUNG

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2002.

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 branch offices in France and Spain and agencies in other countries.

CHANGE OF NAME

On 1 July 2002 the company changed its name to Tokio Marine Europe Insurance Limited. The new name reflects the scope of the group's operations and underlines our commitment to the insurance industry throughout Europe.

RESULTS

The gross premium earned for the group was £118.6 million, an increase of £23.7 million compared to the gross premium earned for 2001 of £94.9 million. This was due to increases in direct Japanese-related property business, new acceptances of direct Non-Japanese business and the acceptance of reinsurance business, which was wholly reinsured with our parent company.

The net premium earned for 2002 was £32.0 million, an increase of £2.4 million compared to the net premium earned for last year of £29.6 million.

The incurred net loss ratio has improved to 74% from 80% last year. This was mainly due to continued improvement in the direct Employer's Liability account in the United Kingdom, which had been targeted for more stringent underwriting and loss control initiatives during the year and an improvement in the Marine transit account in Europe. These improvements were party offset by deteriorations in general London Market stamp business in run-off and reinsurance business accepted from a fellow subsidiary in the United States, which is also in run-off.

The investment income for the group, including realised and unrealised gains and losses, was £6.9 million compared to the previous year's £7.2 million. The lower investment return was due to decreases in interest rates during the year. The group continues to follow a conservative investment approach, mainly placing funds in Money Markets and Bond Markets.

The group profit after tax was £3.6 million, compared to last year's group profit of £2.9 million. The group recorded exchange gains of £1.4 million this year against exchange losses of £1.6 million last year, resulting in an increase in Shareholders' Funds of £5.0 million this year compared to an increase of £1.3 million in 2001.

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

FUTURE DEVELOPMENTS

To facilitate the achievement of our objective of long-term sustainable growth and profitability, the group is investing resources to expand its Non-Japanese direct business portfolio in the UK and through its Branch Offices on the Continent. Emphasis will be on prudent underwriting and risk control with efficient administration and high standards of service for clients and intermediaries. The group is confident that this selective and controlled new business portfolio will both enhance its effectiveness and financial strength and increase its competitiveness in the longer term.

ERNST & YOUNG

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors serving at the end of the year are listed on page 1.

Mr S Sumi also served as Chief Executive until his resignation on 1 July 2002. Mr A Takechi was appointed as Chief Executive on 1 July 2002.

The directors would like to thank Mr Sumi for his contribution to the group and to welcome Mr Takechi to the Board.

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.

AUDITORS

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

By order of the board

T Marshall
Secretary

150 Leadenhall Street
London EC3V 4TE

ERNST & YOUNG

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.

ERNST & YOUNG

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TOKIO MARINE EUROPE INSURANCE LIMITED

We have audited the group's accounts for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 22. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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 financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TOKIO MARINE EUROPE INSURANCE LIMITED (continued)

Equalisation reserve

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 amount set aside at 31 December 2002, 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 15.

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 2002 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 LLP
Registered Auditor
London

16 April 2003

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
TECHNICAL ACCOUNT - GENERAL BUSINESS					
Gross premiums written		127,651,451		97,664,093	
Outward reinsurance premiums		93,808,125		68,428,488	
Net premiums written			33,843,326		29,235,605
Change in the gross provision for unearned premiums		(9,013,591)		(2,728,864)	
Change in the provision for unearned premiums, reinsurers' share		(7,175,446)		(3,073,896)	
Change in the net provision for unearned premiums			(1,838,145)		345,032
Earned premiums net of reinsurance	2		32,005,181		29,580,637
Gross claims paid		(93,788,517)		(71,602,916)	
Reinsurers' share		(76,113,608)		(47,169,206)	
Net claims paid		(17,674,909)		(24,433,710)	
Gross change in the provision for claims		64,515,927		(18,403,149)	
Reinsurers' share		70,396,937		(19,172,402)	
Net change in the provision for claims		(5,881,010)		769,253	
Claims incurred net of reinsurance	3		(23,555,919)		(23,664,457)
Net operating expenses	4		(10,785,425)		(8,891,803)
Total technical charges			(34,341,344)		(32,556,260)
TRANSFER TO CLAIMS EQUALISATION RESERVE	15		(218,980)		–
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			(2,555,143)		(2,975,623)

ERNST & YOUNG

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
NON-TECHNICAL ACCOUNT					
Balance on the general business technical account		(2,555,143)		(2,975,623)	
Investment income	8	5,683,818		7,352,126	
Unrealised gains on investments		1,227,560		–	
			4,356,235		4,376,503
Investment expenses and charges -					
Investment management expenses		282,090		366,707	
Realised losses on investments		–		–	
Unrealised losses on investments		–		134,437	
			282,090		501,144
Other income		1,009,776		1,333,353	
Other expenses		796,496		1,094,471	
			213,280		238,882
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			4,287,425		4,114,241
Tax on profit on ordinary activities	9		(727,816)		(1,206,355)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			3,559,609		2,907,886

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2002

	2002 £	2001 £
Profit on ordinary activities after taxation	3,559,609	2,907,886
Exchange gain/(loss)	1,458,432	(1,639,562)
Total recognised gains for the year	5,018,041	1,268,324
Total recognised gains and losses since last year's report and accounts.	5,018,041	1,268,324

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.

ERNST & YOUNG

GROUP BALANCE SHEET
at 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
ASSETS					
INVESTMENTS	10				
Other financial investments		145,325,805		131,103,455	
Deposits with ceding undertakings		5,116,873		1,740,212	
			150,442,678		132,843,667
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Provision for unearned premiums		22,060,426		16,247,276	
Claims outstanding	14	108,611,462		192,932,135	
			130,671,888		209,179,411
DEBTORS					
Policyholders		212,425		1,431,225	
Intermediaries		19,654,929		15,980,284	
Arising out of direct insurance operations		19,867,354		17,411,509	
Arising out of reinsurance operations - group		688,244		1,062,679	
- other		11,985,047		12,584,419	
Other debtors		2,577,779		2,105,060	
Other amounts due from group undertakings		3,571		115,646	
			35,121,995		33,279,313
OTHER ASSETS					
Tangible assets	11	1,018,768		1,286,415	
Taxation recoverable		1,292,476		1,646,881	
Cash at bank and in hand	12	13,046,254		15,188,543	
			15,357,498		18,121,839
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest		795,637		889,311	
Deferred acquisition costs		5,754,991		3,887,029	
Other prepayments		313,217		484,005	
			6,863,845		5,260,345
TOTAL ASSETS			338,457,904		398,684,575

ERNST & YOUNG

Tokio Marine Europe Insurance Limited
(formerly The Tokio Marine & Fire Insurance Company (UK) Limited)

GROUP BALANCE SHEET
at 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	13	35,000,000		35,000,000	
Share premium		30,000,000		30,000,000	
Profit and loss account		(4,710,130)		(9,728,171)	
Shareholder funds attributable to equity interests	16		60,289,870		55,271,829
TECHNICAL PROVISIONS					
Provision for unearned premiums		26,962,115		19,297,034	
Claims outstanding - gross amount	14	210,760,319		292,827,477	
Claims equalisation reserve	15	220,000		1,020	
			237,942,434		312,125,531
DEPOSITS RECEIVED FROM REINSURERS					
- group		2,914,356		357,185	
- other		6,182,681		3,350,242	
			9,097,037		3,707,427
CREDITORS					
Arising out of direct insurance operations		5,274,979		5,779,109	
Arising out of reinsurance operations - group		6,241,018		4,973,630	
- other		7,212,230		6,946,724	
Other creditors including taxation and social security		3,915,496		4,170,613	
Other amounts owed to group undertakings		853,152		1,087,701	
			23,496,875		22,957,777
ACCRUALS AND DEFERRED INCOME			7,631,688		4,622,011
TOTAL LIABILITIES			338,457,904		398,684,575

Approved at a meeting of the Board of Directors on 16 April 2003 and signed on its behalf.

A Takechi Director

ERNST & YOUNG

COMPANY BALANCE SHEET
at 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
ASSETS					
INVESTMENTS	10				
Shares in group undertakings		2,351,886		2,351,886	
Other financial investments		145,075,805		130,783,455	
Deposits with cedant undertakings		5,116,873		1,740,212	
			152,544,564		134,875,553
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Provision for unearned premiums		22,060,426		16,247,276	
Claims outstanding	14	108,611,462		192,932,135	
			130,671,888		209,179,411
DEBTORS					
Policyholders		212,425		1,431,225	
Intermediaries		19,654,929		15,980,284	
Arising out of direct insurance operations		19,867,354		17,411,509	
Arising out of reinsurance operations - group		688,244		1,062,679	
- other		11,985,047		12,584,419	
Other debtors		2,518,272		1,911,504	
Other amounts due from group undertakings		375,492		225,573	
			35,434,409		33,195,684
OTHER ASSETS					
Tangible assets	11	956,932		1,244,136	
Taxation recoverable		1,292,476		1,646,881	
Cash at bank and in hand	12	12,855,406		15,141,437	
			15,104,814		18,032,454
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest		795,637		889,311	
Deferred acquisition costs		5,754,991		3,887,029	
Other prepayments		313,217		484,005	
			6,863,845		5,260,345
TOTAL ASSETS			340,619,520		400,543,447

ERNST & YOUNG

COMPANY BALANCE SHEET
at 31 December 2002

	Notes	2002 £	2002 £	2001 £	2001 £
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	13	35,000,000		35,000,000	
Share premium		30,000,000		30,000,000	
Profit and loss account		(5,879,299)		(10,883,312)	
Shareholder funds attributable to equity interests	16		59,120,701		54,116,688
TECHNICAL PROVISIONS					
Provision for unearned premiums		26,962,115		19,297,034	
Claims outstanding - gross amount	14	210,760,319		292,827,477	
Claims equalisation reserve	15	220,000		1,020	
			237,942,434		312,125,531
DEPOSITS RECEIVED FROM REINSURERS					
- group		2,914,356		357,185	
- other		6,182,681		3,350,242	
			9,097,037		3,707,427
CREDITORS					
Arising out of direct insurance operations		5,274,979		5,779,109	
Arising out of reinsurance operations - group		6,241,018		4,973,630	
- other		7,212,230		6,946,724	
Other creditors including taxation and social security		4,028,703		4,342,542	
Other amounts owed to group undertakings		4,070,730		3,929,785	
			26,827,660		25,971,790
ACCRUALS AND DEFERRED INCOME			7,631,688		4,622,011
TOTAL LIABILITIES			340,619,520		400,543,447

Approved at a meeting of the Board of Directors on 16 April 2003 and signed on its behalf

A Takechi Director

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

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.

In preparing the accounts for the current year, the group has adopted FRS 19 'Deferred Tax'.

The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has not resulted in any adjustments to the accounts of prior years.

The group has not prepared a consolidated cash flow statement, in accordance with the exemption allowed under Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements'. The group is exempted on the basis that it is a wholly owned subsidiary of Millea Holdings Inc., a company incorporated in Japan, which produces consolidated statements that are publicly available.

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.

Provisioning for doubtful debts
Debtors arising out of reinsurance operations are stated net of specific provisions against doubtful debts which are made on the basis of reviews conducted by management. Provisions are made in respect of particular problem balances.

ERNST & YOUNG

1. **ACCOUNTING POLICIES** (continued)

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.

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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

1. ACCOUNTING POLICIES (continued)

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 Tokio Marine Europe Insurance Limited and all its subsidiary undertakings drawn up to 31 December each year.

No profit and loss account is presented for Tokio Marine Europe Insurance Limited as permitted by S230 of Companies Act 1985.

ERNST & YOUNG

2. EARNED PREMIUMS NET OF REINSURANCE

	Gross £	*Reinsurance* £	*Net* £
2002			
Premiums earned	118,637,860	86,632,679	32,005,181
2001			
Premiums earned	94,935,229	65,354,592	29,580,637

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £	*Reinsurance* £	*Net* £
2002			
Claims paid	93,788,517	76,113,608	17,674,909
Outstanding claims carried forward	210,760,319	108,611,462	102,148,857
Outstanding claims brought forward	275,276,246	179,008,399	96,267,847
Increase/(decrease)	(64,515,927)	(70,396,937)	5,881,010
Claims incurred	29,272,590	5,716,671	23,555,919
2001			
Claims paid	71,602,916	47,169,206	24,433,710
Outstanding claims carried forward	292,827,477	192,932,135	99,895,342
Outstanding claims brought forward	274,424,328	173,759,733	100,664,595
Increase/(decrease)	18,403,149	19,172,402	(769,253)
Claims incurred	90,006,065	66,341,608	23,664,457

Out of the net claims incurred figure £7.03 million (2001 - £9.2 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.

3. CLAIMS INCURRED NET OF REINSURANCE (continued)

The difference between the 2001 outstanding claims carried forward and the 2002 outstanding claims brought forward is attributable to exchange rate movements.

4. NET OPERATING EXPENSES

	Gross	*Reinsurance*	*Net*
	£	£	£
2002			
Acquisition costs - Commissions	23,208,113	21,329,156	1,878,957
- Other	3,377,004	–	3,377,004
Change in deferred acquisition costs	(2,051,022)	(2,382,798)	331,776
	24,534,095	18,946,358	5,587,737
Administrative costs	5,197,688	–	5,197,688
	29,731,783	18,946,358	10,785,425
2001			
Acquisition costs	17,095,727	14,619,249	2,476,478
Change in deferred acquisition costs	(554,936)	(673,167)	118,231
	16,540,791	13,946,082	2,594,709
Administrative costs	6,297,094	–	6,297,094
	22,837,885	13,946,082	8,891,803

Commissions payable in respect of direct insurance business amounting to £9,126,260 (2001 - £7,302,098) are included in gross operating expenses.

5. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses include:

	2002	*2001*
	£	£
Depreciation	601,316	599,035
Auditors' remuneration, including expenses	128,925	119,088
Fees payable to Ernst & Young LLP for non-audit services	9,174	25,610
Rentals - land and buildings	1,481,931	1,253,456

6. STAFF COSTS

	2002	*2001*
	£	£
Wages and salaries	2,386,643	2,124,707
Social security costs	627,086	531,667
Other pension costs	181,301	182,937
	3,195,030	2,839,311

ERNST & YOUNG

6. STAFF COSTS (continued)

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

	2002 *No.*	*2001* *No.*
Underwriting	33	26
Claims	15	14
Administration	34	39
	82	79

In addition the group had certain staff seconded to it from the parent undertaking. The average number of seconded staff during the year was 23 (2001 - 21) and their aggregate remuneration amounted to £1,152,284 (2001 - £1,045,197).

7. DIRECTORS' EMOLUMENTS

Aggregate directors' emoluments

	2002 *£*	*2001* *£*
Services as directors of the company	317,840	291,632

The emoluments of the highest paid director were £72,601. The directors performed their duties to the group in accordance with contracts with the parent undertaking by whom they are employed.

8. INVESTMENT INCOME

	2002 *£*	*2001* *£*
Investment income	5,572,820	6,916,643
Realised gains	110,998	435,483
Total income	5,683,818	7,352,126

ERNST & YOUNG

9. TAXATION

The charge for taxation comprises:

	2002 £	*2001* £
Overseas taxation	774,884	1,198,438
UK corporation tax of group undertakings	13,994	3,418
Adjustments relating to prior years	(61,062)	4,499
	727,816	1,206,355

Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2001 – lower) than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are reconciled below:

	2002 £	*2001* £
Profit on ordinary activities before tax	4,287,425	4,114,241
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	1,286,227	1,234,272
Expenses disallowed	22,716	19,257
Tax charge/(credit) on exchange gain/(loss)	437,528	(491,868)
Relief against UK tax losses brought forward	(1,732,477)	(736,784)
Overseas taxation	774,884	1,176,979
Adjustment relating to prior years	(61,062)	4,499
	727,816	1,206,355

There is an unprovided deferred taxation charge of £1.5 million (2001 - £0.4 million) and an unprovided deferred tax asset of £2.4 million (2001 - £3.8 million) due to tax losses arising from previous years. The directors estimate that the current tax losses will not be fully utilised until the end of 2005 at current rates of profitability. The directors do not consider that it is appropriate to recognise a deferred tax asset as the future profitability of the group cannot be determined with reasonable certainty over such a period.

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

10a. INVESTMENTS

Group	*Current value*		*Historical cost*	
	2002	*2001*	*2002*	*2001*
	£	£	£	£
Other financial investments				
- Unlisted equity securities	10,000	10,000	10,000	10,000
Listed debt securities and other listed fixed interest securities	93,225,305	71,877,559	91,015,055	70,826,867
Deposits with credit institutions	52,090,500	59,215,896	52,090,500	59,215,896
	145,325,805	131,103,455	143,115,555	130,052,763
Deposit with cedant undertakings	5,116,873	1,740,212	5,116,873	1,740,212
Total group investments	150,442,678	132,843,667	148,232,428	131,792,975

Company	*Current value*		*Historical cost*	
	2002	*2001*	*2002*	*2001*
	£	£	£	£
Other financial investments				
- Unlisted equity securities	10,000	10,000	10,000	10,000
Listed debt securities and other listed fixed interest securities	93,225,305	71,877,559	91,015,055	70,826,867
Deposits with credit institutions	51,840,500	58,895,896	51,840,500	58,895,896
	145,075,805	130,783,455	142,865,555	129,732,763
Deposit with cedant undertakings	5,116,873	1,740,212	5,116,873	1,740,212
Total group investments	150,192,678	132,523,667	147,982,428	131,472,975
Shares in group undertakings (10b)	2,351,886	2,351,886	2,351,886	2,351,886
Total company investments	152,544,564	134,875,553	150,334,314	133,824,861

10b. 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.

The principal activities of T.M. Management Services Limited are the provision of claims handling, loss prevention and general management services and acting as a management agent for insurance companies.

Tokio Marine Europe Limited has not traded during 2002.

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

11. TANGIBLE ASSETS

Company

	Office refurbishment £	*Computer equipment* £	*Motor vehicles* £	*Furniture and equipment* £	*Total* £
Cost:					
At 1 January 2002	375,075	2,559,235	252,518	913,694	4,100,522
Exchange adjustment	1,672	17,518	14,734	24,651	58,575
Additions	43,402	153,256	12,457	71,509	280,624
Disposals	(16,857)	(32,292)	(13,989)	(605)	(63,743)
At 31 December 2002	403,292	2,697,717	265,720	1,009,249	4,375,978
Depreciation:					
At 1 January 2002	290,304	1,564,049	195,229	806,804	2,856,386
Exchange adjustment	199	13,903	11,870	19,540	45,512
Provided during the year	10,929	495,016	40,427	38,053	584,425
Disposals	(16,536)	(36,139)	(13,997)	(605)	(67,277)
At 31 December 2002	284,896	2,036,829	233,529	863,792	3,419,046
Net book value:					
At 31 December 2002	118,396	660,888	32,191	145,457	956,932
At 31 December 2001	84,771	995,186	57,289	106,890	1,244,136

Group

Cost:					
At 1 January 2002	375,075	2,608,551	252,518	924,801	4,160,945
Exchange adjustment	1,672	18,546	14,734	25,400	60,352
Additions	43,402	166,584	30,234	75,478	315,698
Disposals	(16,857)	(32,292)	(13,989)	(605)	(63,743)
At 31 December 2002	403,292	2,761,389	283,497	1,025,074	4,473,252
Depreciation:					
At 1 January 2002	290,304	1,579,222	195,229	809,775	2,874,530
Exchange adjustment	199	14,014	11,870	19,832	45,915
Provided during the year	10,929	508,086	42,076	40,225	601,316
Disposals	(16,536)	(36,139)	(13,997)	(605)	(67,277)
At 31 December 2002	284,896	2,065,183	235,178	869,227	3,454,484
Net book value:					
At 31 December 2002	118,396	696,206	48,319	155,847	1,018,768
At 31 December 2001	84,771	1,029,329	57,289	115,026	1,286,415

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

12. CASH AT BANK AND IN HAND

Cash at bank and in hand includes £2,400,851 (2001 - £2,360,424) held as collateral for letters of credit, of which £1,637,156 (2001 - £1,995,099) is held in accounts over which the issuing bank has a legal charge.

13. SHARE CAPITAL

	2002 £	*2001* £
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

14. CLAIMS OUTSTANDING

Group and Company	*Gross* £	*Reinsurance* £	*Net* £
2002			
Notified outstandings	110,441,260	67,751,545	42,689,715
Provision for claims incurred but not reported	97,178,209	40,859,917	56,318,292
	207,619,469	108,611,462	99,008,007
Claims handling expenses	3,140,850	–	3,140,850
	210,760,319	108,611,462	102,148,857
2001			
Notified outstandings	201,005,835	156,484,111	44,521,724
Provision for claims incurred but not reported	88,841,216	36,448,024	52,393,192
	289,847,051	192,932,135	96,914,916
Claims handling expenses	2,980,426	–	2,980,426
	292,827,477	192,932,135	99,895,342

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. Claims outstanding for liability business include those arising from asbestos and pollution hazards related risks. 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.

ERNST & YOUNG

15. 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 decreasing the general business technical result before tax by £218,980 (2001 - £ Nil) and increasing the balance of the reserve to £220,000.

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	Share capital £	*Share premium* £	*Profit and loss account* £	*Total* £
At 1 January 2002	35,000,000	30,000,000	(9,728,171)	55,271,829
Foreign exchange gain	–	–	1,458,432	1,458,432
Retained profit for the financial year	–	–	3,559,609	3,559,609
At 31 December 2002	35,000,000	30,000,000	(4,710,130)	60,289,870
Balance at 1 January 2001	35,000,000	30,000,000	(10,996,495)	54,003,505
Foreign exchange loss	–	–	(1,639,562)	(1,639,562)
Retained profit for the financial year	–	–	2,907,886	2,907,886
At 31 December 2001	35,000,000	30,000,000	9,728,171	55,271,829

Company

	Share capital £	*Share premium* £	*Profit and loss account* £	*Total* £
At 1 January 2002	35,000,000	30,000,000	(10,883,312)	54,116,688
Foreign exchange gain	–	–	1,458,432	1,458,432
Retained profit for the financial year	–	–	3,545,581	3,545,581
At 31 December 2002	35,000,000	30,000,000	(5,879,299)	59,120,701
Balance at 1 January 2001	35,000,000	30,000,000	(12,302,612)	52,697,388
Foreign exchange loss	–	–	(1,639,562)	(1,539,562)
Retained profit for the financial year	–	–	3,058,862	3,058,862
At 31 December 2001	35,000,000	30,000,000	(10,883,312)	54,116,688

ERNST & YOUNG

17. SEGMENTAL INFORMATION

	Direct Marine and Aviation	*Direct Property Damage*	*Direct Liability*	*Direct Others*	*Reinsurance*	*Total*
	£	£	£	£	£	£
2002						
Gross premiums written						
- UK	5,044,977	7,718,559	6,321,333	3,120,951	7,091,915	29,297,735
- Europe	17,875,852	12,074,451	4,425,773	2,480,125	546,109	37,402,310
- USA	–	–	–	–	58,027,977	58,027,977
- Other	–	383,858	–	–	2,539,571	2,923,429
	22,920,829	20,176,868	10,747,106	5,601,076	68,205,572	127,651,451
Gross premiums earned	22,166,443	17,989,605	10,039,410	5,062,687	63,379,715	118,637,860
Gross claims incurred	(13,750,230)	(8,017,259)	(6,981,012)	324,651	(848,740)	(29,272,590)
Gross operating expenses	(6,423,710)	(4,937,835)	(3,172,383)	(1,409,063)	(13,788,792)	(29,731,783)
Gross technical result	1,992,503	5,034,511	(113,985)	3,978,275	48,742,183	59,633,487
Reinsurance balance	(1,084,666)	2,446,332	269,680	2,330,315	58,007,989	61,969,650
Net technical result	3,077,169	2,588,179	(383,665)	1,647,960	(9,265,806)	(2,336,163)
Net technical provisions	12,261,845	8,086,765	31,590,722	892,266	49,317,259	102,148,857
2001						
Gross premiums written						
- UK	4,071,109	5,374,410	4,553,073	1,403,439	2,813,593	18,215,624
- Europe	14,369,499	8,609,115	2,385,889	642,238	801,275	26,808,016
- USA	–	–	–	–	50,999,519	50,999,519
- Other	–	–	–	–	1,640,934	1,640,934
	18,440,608	13,983,525	6,938,962	2,045,677	56,255,321	97,664,093
Gross premiums earned	18,300,038	14,201,000	6,635,137	2,882,350	52,916,704	94,935,229
Gross claims incurred	(13,589,475)	(10,416,425)	(7,436,524)	3,494,730	(62,058,371)	(90,006,065)
Gross operating expenses	(5,302,496)	(4,042,939)	(1,970,817)	(714,377)	(10,807,256)	(22,837,885)
Gross technical result	(591,933)	(258,364)	(2,772,204)	5,662,703	(19,948,923)	(17,908,721)
Reinsurance balance	290,320	3,152,793	4,070,839	(4,198,388)	11,617,534	14,933,098
Net technical result	(301,613)	2,894,429	1,298,635	1,464,315	(8,331,389)	(2,975,623)
Net technical provisions	14,311,002	7,401,680	31,576,758	650,944	49,004,716	102,945,100

The net technical result represents the balance on the technical account for general business before any transfer to claims equalisation reserve.

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 31 December 2002

18. ANNUAL COMMITMENTS UNDER OPERATING LEASES

Annual commitments under operating leases are as follows:

	Land and buildings		*Other leases*	
	2002	*2001*	*2002*	*2001*
	£	£	£	£
Operating leases which expire:				
Within one year	229,002	123,885	1,235	12,408
Between two to five years	227,657	206,656	22,762	800
In over five years	1,225,070	1,466,030	–	–

19. 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.

20. TRUST FUND

At 31 December 2002 there existed a trust fund of US$5,805,873 (£3,606,132) (2001 - US$5,723,099 (£3,919,931) established at Mizuho Trust & Bank Co (USA), as security in respect of insurance business emanating from the United States of America.

With effect from 1 January 1996 the group withdrew from writing new direct insurance business in the United States of America.

21. 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.

22. PARENT COMPANY

The immediate parent company is The Tokio Marine & Fire Insurance Company Limited, 2-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, which is incorporated in Japan.

The ultimate holding company of Tokio Marine Europe Insurance Limited is Millea Holdings Inc., West Tower, Otemachi First Square, 5-1, Otemachi 1-chrome, Chiyoda-ku, Tokyo 100-0004, which is also incorporated in Japan

ERNST & YOUNG

Tokio Marine Europe Insurance Limited
(formerly The Tokio Marine & Fire Insurance Company (UK) Limited)

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 Boulevard Emile Jacqmain 53 B-1000, Brussels, Belgium
Denmark:	
Marine and non-marine:	Hansen & Klein Insurance Management Limited A/S 9 Dronningens Tværgade, DK-1302 Copenhagen K, Denmark
France:	
Marine and non-marine:	Tokio Marine Europe Insurance Limited 21 Boulevard de la Madeleine 75038 Paris Cedex 01, France
Germany:	
Marine and non-marine:	Tokio Marine Europe Insurance Limited Immermannstrasse 45 D-40210 Dusseldorf, Germany
Greece:	
Marine and non-marine:	Willis Kendriki S.A. 44 Ermou Street Athens 10563, Greece
Italy:	
Marine and non-marine:	Tokio Marine Europe Insurance Limited c/o Allianz Subalpina S.p.A Via Turati 4, 20121 Milan, Italy
Netherlands:	
Marine and non-marine:	Tokio Marine Europe Insurance Limited Professor J H Bavincklaan 5 1183 AT Amsterlveen, The Netherlands
Norway:	
Marine and non-marine:	Citius Insurance AS Drammenveien 145b P.O. Box 170 Skøyen, N-0212 Oslo, Norway
Spain:	
Marine and non-marine:	Tokio Marine Europe Insurance Limited c/o Plus Ultra S.A. Via Augusta 281-285 08017 Barcelona, Spain

ERNST & YOUNG

3. CLAIMS INCURRED NET OF REINSURANCE (continued)

The difference between the 2001 outstanding claims carried forward and the 2002 outstanding claims brought forward is attributable to exchange rate movements.

4. NET OPERATING EXPENSES

	Gross £	*Reinsurance* £	*Net* £
2002			
Acquisition costs - Commissions	23,208,113	21,329,156	1,878,957
- Other	3,377,004	–	3,377,004
Change in deferred acquisition costs	(2,051,022)	(2,382,798)	331,776
	24,534,095	18,946,358	5,587,737
Administrative costs	5,197,688	–	5,197,688
	29,731,783	18,946,358	10,785,425
2001			
Acquisition costs	17,095,727	14,619,249	2,476,478
Change in deferred acquisition costs	(554,936)	(673,167)	118,231
	16,540,791	13,946,082	2,594,709
Administrative costs	6,297,094	–	6,297,094
	22,837,885	13,946,082	8,891,803

Commissions payable in respect of direct insurance business amounting to £9,126,260 (2001 - £7,302,098) are included in gross operating expenses.

5. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses include:

	2002 £	*2001* £
Depreciation	601,316	599,035
Auditors' remuneration, including expenses	128,925	119,088
Fees payable to Ernst & Young LLP for non-audit services	9,174	25,610
Rentals - land and buildings	1,481,931	1,253,456

6. STAFF COSTS

	2002 £	*2001* £
Wages and salaries	2,386,643	2,124,707
Social security costs	627,086	531,667
Other pension costs	181,301	182,937
	3,195,030	2,839,311

ERNST & YOUNG