

KYOEI FIRE AND MARINE INSURANCE COMPANY (UK) LIMITED

**Report and Accounts
for the period ended 31st December 2000**

Registered Office: City Tower, 4th Floor, 40 Basinghall Street, London EC2V 5DE

Registered Number: 1235521



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Kyoei Fire and Marine Insurance Company (UK) Limited

**Directors' Report
for the year ended 31st December 2000**

Review of the business and future developments

The company is an underwriter writing business for predominately Japanese Clients in the United Kingdom and will continue to operate in this market during 2001. The company also operates as a reinsurer in the Far East market. The company has a license to write business in Europe and will be writing business in Germany as well as continuing to seek opportunities in other European States. This business, as that in the United Kingdom will be predominately Japanese Clients. The company's underwriting policy is reviewed annually. The results for the year are considered by the directors to be satisfactory and they hope to achieve a similar result during 2001.

Results

The result for the discontinued marine business was a transfer of £35,157 from the non-technical account (1999 £58,321 transfer to non-technical account). The result for the non-marine business was a transfer of £222,215 (1999 £337,848) from the non-technical account.

The profit before tax was £337,970 (1999 £226,974).

Dividend

The directors propose a dividend of £150,000 (1999 £100,000).

Directors

The present directors of the company are shown below, all of whom have held office since 1st January, 2000, except for Mr. Castagno who was appointed on 20th April 2000.

Mr. H. Suzuki (Chairman)	Mr. Y. Yamaguchi
Mr. D.C. Ambrose	Mr. S. Takenaka
Mr. K. Arakawa	Mr. D. Mouldsdales
Mr. J. Castagno	

Other directors who served during the period were Mr. P. Glen who resigned on 19th April 2000.

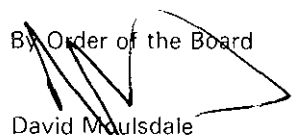
None of the directors held any beneficial interests either at the beginning or the end of the period in any shares of the company.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Ernst & Young has stated that it is intending to transfer its business to a limited liability partnership during the year. 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


David Mouldsdales
Secretary

Kyoei Fire and Marine Insurance Company (UK) Limited

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- d) prepare the accounts on a 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 company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Kyoei Fire and Marine Insurance Company (UK) Limited

**Report of the Auditors
to the members of Kyoei Fire and Marine Insurance Company (UK) Limited**

We have audited the accounts on pages 5 to 17, which have been prepared on the basis of the accounting policies, set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 3 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.

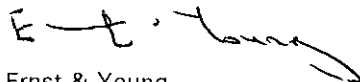
Basis of opinion

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 company'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.

Opinion

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



Ernst & Young
Registered Auditor
London

26 March 2001

Kyoei Fire and Marine Insurance Company (UK) Limited

Profit and Loss Account: Technical Account - General Business
for the period ended 31st December 2000

	Note	2000	1999
		£	£
Earned premiums, net of reinsurance			
Gross premiums written	3		
Continuing operations		1,438,680	1,752,881
Discontinued operations		1,071	7,597
		<u>1,439,751</u>	<u>1,760,478</u>
Outward reinsurance premiums		(452,253)	(861,727)
		<u>987,498</u>	<u>898,751</u>
Allocated investment return transferred from the non-technical account		95,467	77,562
Claims incurred, net of reinsurance			
Claims paid	3		
Gross amount		(776,920)	(767,161)
Reinsurers' share		238,113	252,995
		<u>(538,807)</u>	<u>(514,166)</u>
Change in the provision for claims			
Gross amount		296,167	345,815
Reinsurers' share		(342,237)	(315,061)
		<u>(46,070)</u>	<u>30,754</u>
		(584,877)	(483,412)
Net operating expenses	6	(755,460)	(772,428)
Balance on the technical account for general business		<u>(257,372)</u>	<u>(279,527)</u>
Attributable to:			
Continuing operations		(222,215)	(337,848)
Discontinued operations		(35,157)	58,321
		<u>(257,372)</u>	<u>(279,527)</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Profit and Loss Account: Non-Technical Account
for the year ended 31st December 2000

	Note	2000	1999
		£	£
Balance on the general business technical account		(257,372)	(279,527)
Investment income	4	784,792	706,272
Unrealised gains/(losses) on investments		56,441	(75,183)
Investment expenses and charges	5	(150,424)	(47,026)
		<u>690,809</u>	<u>584,063</u>
Allocated investment return transferred to the general business technical account		(95,467)	(77,562)
Profit on ordinary activities before tax		<u>337,970</u>	<u>226,974</u>
Tax on profit on ordinary activities	9	(103,031)	(68,189)
Profit on ordinary activities after tax		<u>234,939</u>	<u>158,785</u>
Dividends	11	(150,000)	(100,000)
Retained profit for the financial year transferred to reserves		<u>84,939</u>	<u>58,785</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Statement of total recognised gains and losses
for the year ended 31st December 2000

	<i>Note</i>	2000	1999
		£	£
Profit on ordinary activities after tax		234,939	158,785
Currency translation differences on foreign currency net assets less tax	15	(45,573)	(30,937)
Total gains recognised since the last report		<u>189,366</u>	<u>127,848</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Balance Sheet
as at 31st December 2000

	Note	2000		1999	
		£	£	£	£
ASSETS					
Investments	10				
Other financial investments		11,293,079		11,216,708	
			11,293,079		11,216,708
Reinsurers' share of technical provisions	16				
Claims outstanding			661,823		973,492
Debtors					
Debtors arising out of direct insurance operations		13,073		40,449	
Debtors arising out of reinsurance operations	12	67,177		166,413	
Other debtors	13	16,015		4,607	
			96,265		211,469
Other assets					
Cash at bank and in hand			292,879		209,382
Prepayments and accrued income					
Accrued interest and rent			287,478		194,191
Total assets					
			12,631,524		12,805,242

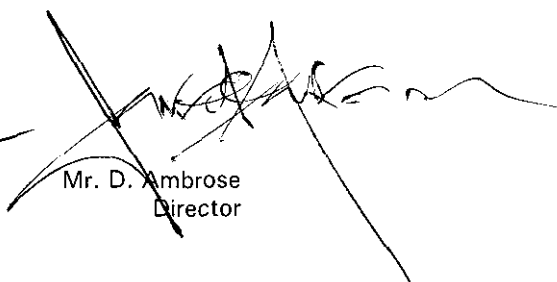
Kyoei Fire and Marine Insurance Company (UK) Limited

Balance Sheet
as at 31st December 2000

	Note	2000		1999	
		£	£	£	£
LIABILITIES					
Capital and reserves					
Called up share capital	14	10,000,000		10,000,000	
Profit and loss account	15	246,351		206,985	
Shareholders' funds attributable to equity interests			10,246,351		10,206,985
Technical provisions					
Claims outstanding	16		2,177,169		2,383,713
Creditors					
Creditors arising out of reinsurance operations	17	11,084		64,792	
Proposed dividend	11	150,000		100,000	
Other creditors including taxation and social security	18	46,920		49,752	
			208,004		214,544
Total liabilities			12,631,524		12,805,242

These accounts were approved by the Board of Directors on 26th March 2001 and were signed on its behalf by :


 Mr. S. Takenaka
 Director


 Mr. D. Ambrose
 Director

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts

1. Basis of preparation

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in accordance with the special provisions relating to insurance companies in section 255 of, and schedule 9A to, the Companies Act 1985.

The accounts are prepared in accordance with applicable accounting standards. In addition, the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 (the ABI SORP) have been adopted.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's accounts.

Basis of accounting for insurance activities

The underwriting results of all business are determined using a fund basis of accounting because the directors consider that the information on premiums receivable and claims payable is insufficient for reliable estimates to be made at the end of an underwriting year. Provision is made for future settlements, including claims notified but not yet settled and claims incurred but not reported, and any surplus or deficiency arising on these provisions is transferred to or from the profit and loss account.

Premiums

Marine written premiums comprise amounts due during the financial year in respect of contracts, which commenced in earlier years. This business is discontinued.

Non-marine written premiums are recorded in the accounting period in which they are notified. They comprise the premiums receivable for contracts incepting during the financial period and for business written in previous financial years.

Premiums are shown gross of commission payable to intermediaries.

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

Claims incurred

Claims incurred includes all claims and claims settlement expense payments made in respect of the financial period, and the movement in provision for outstanding claims and settlement expenses and includes claims incurred but not reported.

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

Claims outstanding

Outstanding claims comprise provision for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. Where applicable, prudent estimates are made for salvage and subrogation recoveries, which are shown in the balance sheet as assets.

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. An allocation of investment income is made to the technical account based on the actual return on assets held to support insurance reserves.

Investment expenses and charges

Investment expenses and charges comprises the investment managers' charges and realised investment losses. Realised losses are calculated as the difference between sales proceeds and cost, or if previously revalued the valuation as at the last balance sheet date.

Investments

Listed investments are stated at mid-market value at the balance sheet date. Unrealised gains and losses are taken to the profit and loss account. Investments include participation in a Liquidity Fund which utilises AAA Credit Institutions. This fund is regulated under the Undertaking for Collective Investments in Transferable Securities (UCITS) Directive.

Foreign currencies

Foreign currency assets and liabilities and revenue transactions in the London market accounts are translated at rates of exchange ruling at the balance sheet date. Exchange profits and losses thus arising are taken to reserves and disclosed in the statement of total recognised gains and losses.

Deferred taxation

Deferred taxation is calculated on the liability method and is provided only to the extent that it is considered that the liability will become payable with reasonable probability within the foreseeable future.

Cash Flow Statement

The company has taken advantage of the exemption given by FRS1 (revised 1996) to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, by not preparing a cash flow statement. Details of the holding company are given in Note 21 of the accounts.

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

3. Segmental information

The turnover and profit before taxation are disclosed in the profit and loss account on pages 5 and 6, and net assets are disclosed in the balance sheet on pages 8 and 9.

The net premium relating to Direct Insurance business arises predominantly from business written in the United Kingdom. The net premium relating to Reinsurance business arises predominately from business written in the Japanese Market.

	2000 gross premiums written £	2000 gross claims incurred £	2000 gross operating expenses £	2000 reinsurance balance £
Insurance:				
Property and casualty	110,051	38,822	(47,903)	(101,875)
Reinsurance:				
Marine, aviation and transport	1,071	(8,334)	(2,978)	(88,401)
Property and casualty	1,328,629	(511,241)	(1,037,388)	(33,292)
	<u>1,439,751</u>	<u>(480,753)</u>	<u>(1,088,269)</u>	<u>(223,568)</u>

	1999 gross premiums written £	1999 gross claims incurred £	1999 gross operating expenses £	1999 reinsurance balance £
Insurance:				
Property and casualty	120,352	(3,811)	(51,723)	(86,220)
Reinsurance:				
Marine, aviation and transport	7,597	352,106	(7,584)	(345,643)
Property and casualty	1,632,529	(769,641)	(1,116,482)	(88,569)
	<u>1,760,478</u>	<u>(421,346)</u>	<u>(1,175,789)</u>	<u>(520,432)</u>

4. Investment income

	2000 £	1999 £
Income from listed investments	312,920	194,744
Income from other investments	471,872	511,528
	<u>784,792</u>	<u>706,272</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

5. Investment expenses and charges

	2000	1999
	£	£
Investment management expenses	16,322	21,605
Realised investment losses	134,102	25,421
	<u>150,424</u>	<u>47,026</u>

6. Net operating expenses

	2000	1999
	£	£
Acquisition costs	841,596	843,193
Administrative expenses	246,673	332,596
	<u>1,088,269</u>	<u>1,175,789</u>
Gross operating expenses	1,088,269	1,175,789
Reinsurance commissions	(332,809)	(403,361)
	<u>755,460</u>	<u>772,428</u>

Auditor's remuneration in respect of audit services amounted to £30,400 (1999 £29,000). In respect of non-audit, services amounted to £960 (1999 £936).

7. Staff costs

	2000	1999
	£	£
Wages and salaries	66,731	69,572
Social security costs	6,078	6,043
	<u>72,809</u>	<u>75,615</u>

The average number of employees including the executive director was 2 (1999 2).

8. Remuneration of directors

	2000	1999
	£	£
Directors' emoluments		
Remuneration as executives	52,610	56,036

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

9. Taxation

	2000	1999
	£	£
United Kingdom corporation tax at 30% (1999 30.25%)	103,031	75,365
Corporation tax over provided in prior year	-	(7,176)
	<u>103,031</u>	<u>68,189</u>
	<u><u>103,031</u></u>	<u><u>68,189</u></u>

10. Other financial investments

	Market value 2000 £	Market value 1999 £	Cost 2000 £	Cost 1999 £
Other financial investments				
Government fixed interest	-	935,820	-	954,405
Other fixed interest	2,607,879	2,430,888	2,582,372	2,443,238
Deposits with credit institutions	5,626,954	7,850,000	5,626,954	7,850,000
Collective Investments	3,058,246	-	3,058,246	-
	<u>11,293,079</u>	<u>11,216,708</u>	<u>11,267,572</u>	<u>11,247,643</u>
	<u><u>11,293,079</u></u>	<u><u>11,216,708</u></u>	<u><u>11,267,572</u></u>	<u><u>11,247,643</u></u>

All fixed interest securities are listed.

11. Dividends

The proposed final dividend is £150,000 (1999 £100,000).

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

12. Debtors arising out of reinsurance operations

	2000 £	1999 £
Amounts owed by parent undertaking	8,616	766
Amounts owed by third parties	58,561	165,647
	<u>67,177</u>	<u>166,413</u>

13. Other debtors

	2000 £	1999 £
Corporation tax recoverable	12,867	-
VAT recoverable	3,148	4,607
	<u>16,015</u>	<u>4,607</u>

14. Called up share capital

	2000 £	1999 £
Ordinary shares of £1 each		
Authorised – 15,000,000 shares	15,000,000	15,000,000
Allotted, fully paid – 10,000,000 shares	10,000,000	10,000,000
	<u>25,000,000</u>	<u>25,000,000</u>

15. Reserves

	Profit and loss account £
At beginning of year	206,985
Profit on ordinary activities after tax	234,939
Proposed final dividend	(150,000)
Foreign exchange translation difference on foreign currency net assets	(65,105)
Tax on foreign exchange translation difference	19,532
At end of year	<u>246,351</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

16. Technical provisions

	Claims outstanding £
Gross amount	
At beginning of year	2,383,713
Exchange adjustment	89,623
Movement in the provision	(296,167)
At end of year	<u>2,177,169</u>
Reinsurance amount	
At beginning of year	973,492
Exchange adjustment	30,568
Movement in the provision	(342,237)
At end of year	<u>661,823</u>
Net technical provisions	
At end of year	<u>1,515,346</u>
At the end of previous year	<u>1,410,221</u>

In order to arrive at the appropriate level of provision, the company has reviewed the information available including outstanding loss advices and past development of notifications. It is believed that the aforementioned have been appropriately considered in estimating ultimate losses which have occurred, including future developments in known claims as well as those yet to be reported. However, the future uncertainties, which are inherent in the estimating process, are such that future developments might cause these provisions to be inadequate or excessive.

The net technical provisions include an amount of £308,691 (1999 £167,864) relating to asbestos bodily injury, asbestos property damage, and environmental pollution claims.

17. Creditors arising out of reinsurance operations

	2000 £	1999 £
Amounts owed to third parties	<u>11,084</u>	<u>64,792</u>

Kyoei Fire and Marine Insurance Company (UK) Limited

Notes to the accounts (continued)

18. Other creditors including taxation and social security

	2000	1999
	£	£
Corporation tax	-	1,182
Amounts owed to parent undertaking	7,849	8,097
Investment management fees	2,467	5,392
Auditors fees	35,720	34,075
Other	884	1,006
	<u>46,920</u>	<u>49,752</u>

19. Commitments

There were no capital commitments at the end of the period (1999 £ Nil).

20. Related party disclosure

The Company has taken advantage of the exemption given by FRS 8 to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

21. Ultimate parent undertaking

The ultimate parent undertaking is Kyoei Mutual Fire and Marine Insurance Company, 18-6 Shimbashi, 1-chome, Minato-ku, Tokyo 105-8604 incorporated in Japan, which is also the largest group of undertakings for which group accounts are drawn up of which the company is a member. The group accounts are available for inspection at the registered office.