KYOEI FIRE AND MARINE INSURANCE COMPANY (UK) LIMITED

Report and Accounts
for the period ended 31st December 2002



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

Registered Number: 1235521

CONTENTS

Contents	1
Report of the directors	2
Directors' responsibilities	3
Report of the auditors	4
Profit and loss account: technical account	5
Profit and loss account: non-technical account	6
Statement of total recognised gains and losses	7
Balance sheet	8-9
Notes to the accounts	10-17

Kyoei Fire and Marine Insurance Company (UK) Limited

Directors' Report
for the year ended 31st December 2002

Review of the business and future developments

The company is an underwriter writing business for predominantly Japanese Clients in the United Kingdom and will continue to operate in this market during 2003. The company also operates as a reinsurer in the Far East market. The company has a license to write business in Europe and commenced writing property business in Germany in 2002 and will continue to seek opportunities with predominantly Japanese Clients in other European States. The company's underwriting policy is reviewed annually. The Company commenced underwriting Personal Accident business in January 2002 and will add to this class of business during 2003. The results for the year are considered by the directors to be satisfactory and they hope to achieve a similar result during 2003.

During 2002, the company concluded a commutation with Equitas which resulted in a significant reduction in the liabilities of the discontinued marine business. This generated a small surplus over and above the reserves previously recognised.

Results

The result for the discontinued marine business was a transfer of £42,671 to the non-technical account (2001 transfer from non-technical account of £176,669). The result for the non-marine business was a transfer of £361,002 (2001 £175,371) from the non-technical account.

The profit after taxation was £72,365 (2001 £147,509).

Dividend

The directors propose a dividend of £30,000 (2001 £30,000).

Directors

The present directors of the company are shown below, all of whom have held office since 1st January 2002.

Mr. W. Ozawa (Chairman)
Mr. J. Castagno
Mr. K. Arakawa
Mr. C. Ott
Mr. T. Wakabayashi
Mr. S. Takenaka
Mr. D. Moulsdale

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

Auditors

Ernst & Young LLP will be reappointed as the Company's Auditors in accordance with the elective resolution passed by the Company under Section 386 of the Companies Act 1985.

By Order of the Board

David Moulsdale
Secretary

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

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

We have audited the company's accounts for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 20. 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 accounts, 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 company 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 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London
25th March 2003

Kyoei Fire and Marine Insurance Company (UK) Limited

Profit and Loss Account: Technical Account - General Business
for the period ended 31st December 2002

	Note	2002		2001	
		£	£	£	£
Earned premiums, net of reinsurance					
Gross premiums written	3				
Continuing operations		1,064,243		1,042,400	
Discontinued operations		5,315		4,490	
		1,069,558		1,046,890	
Outward reinsurance premiums		(280,101)		(228,532)	
			789,457		818,358
Allocated investment return transferred from the non-technical account			47,357		89,788
Claims incurred, net of reinsurance					
Claims paid	3				
Gross amount		(1,043,486)		(570,007)	
Reinsurers' share		216,550		99,832	
		(826,936)		(470,175)	
Change in the provision for claims					
Gross amount		654,144		(127,858)	
Reinsurers' share		(220,699)		14,245	
		433,445		(113,613)	
			(393,491)		(583,788)
Net operating expenses	6		(761,654)		(676,398)
Balance on the technical account for general business			(318,331)		(352,040)
Attributable to:					
Continuing operations			(361,002)		(175,371)
Discontinued operations			42,671		(176,669)
			(318,331)		(352,040)

Kyoei Fire and Marine Insurance Company (UK) Limited

Profit and Loss Account: Non-Technical Account
for the year ended 31st December 2002

	Note	2002		2001	
		£	£	£	£
Balance on the general business technical account			(318,331)		(352,040)
Investment income	4	580,686		777,762	
Unrealised gains/(losses) on investments		38,149		(63,656)	
Investment expenses and charges	5	(145,838)		(59,110)	
			472,997		654,996
Allocated investment return transferred to the general business technical account			(47,357)		(89,788)
Profit on ordinary activities before tax			107,309		213,168
Tax on profit on ordinary activities	9		(34,944)		(65,659)
Profit on ordinary activities after tax			72,365		147,509
Dividends			(30,000)		(30,000)
Retained profit for the financial year transferred to reserves			42,365		117,509

Kyoei Fire and Marine Insurance Company (UK) Limited

Statement of total recognised gains and losses for the year ended 31st December 2002

	Note	2002	2001
		£	£
Profit on ordinary activities after tax		72,365	147,509
Currency translation differences on foreign currency net assets less tax	14	10,045	2,350
Total gains recognised since the last report		82,410	149,859

Kyoei Fire and Marine Insurance Company (UK) Limited

Balance Sheet
as at 31st December 2002

	Note	2002		2001	
		£	£	£	£
ASSETS					
Investments	10				
Other financial investments		11,347,252		11,707,319	
			11,347,252		11,707,319
Reinsurers' share of technical provisions	15				
Claims outstanding			426,124		686,203
Debtors					
Debtors arising out of direct insurance operations		76,329		44,509	
Debtors arising out of reinsurance operations	11	50,533		123,028	
Other debtors	12	1,366		969	
			128,228		168,506
Other assets					
Cash at bank and in hand			151,532		265,743
Prepayments and accrued income					
Accrued interest and rent			79,416		214,504
Total assets			12,132,552		13,042,275

Kyoei Fire and Marine Insurance Company (UK) Limited

Balance Sheet
as at 31st December 2002

	Note	2002		2001	
		£	£	£	£
LIABILITIES					
Capital and reserves					
Called up share capital	13	10,000,000		10,000,000	
Profit and loss account	14	418,620		366,210	
Shareholders' funds attributable to equity interests			10,418,620		10,366,210
Technical provisions					
Claims outstanding	15		1,527,420		2,318,713
Creditors					
Creditors arising out of reinsurance operations	16	65,254		225,613	
Other creditors including taxation and social security	17	121,258		131,739	
			186,512		357,352
Total liabilities			12,132,552		13,042,275

These accounts were approved by the Board of Directors on 25th March 2003 and were signed on its behalf by :

Mr. S. Takenaka
Managing Director

Mr. C. Ott
Director

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.

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 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.
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.

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 20 of the accounts.

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.

	2002 gross premiums written £	2002 gross claims incurred £	2002 gross operating expenses £	2002 reinsurance balance £
Insurance:				
Property and casualty	245,592	(106,525)	(120,927)	(98,465)
Reinsurance:				
Marine, aviation and transport	5,315	119,294	(624)	(101,927)
Property and casualty	818,651	(402,111)	(696,749)	(27,212)
	1,069,558	(389,342)	(818,300)	(227,604)

	2001 gross premiums written £	2001 gross claims incurred £	2001 gross operating expenses £	2001 reinsurance balance £
Insurance:				
Property and casualty	198,609	(32,582)	(103,464)	(111,950)
Reinsurance:				
Marine, aviation and transport	4,490	(310,408)	(868)	69,664
Property and casualty	843,791	(354,875)	(620,771)	(23,464)
	1,046,890	(697,865)	(725,103)	(65,750)

4. Investment income

	2002 £	2001 £
Income from listed investments	238,936	358,801
Income from other investments	341,750	418,961
	580,686	777,762

5. Investment expenses and charges

	2002 £	2001 £
Investment management expenses	14,803	15,862
Realised investment losses	131,035	43,248
	145,838	59,110

6. Net operating expenses

	2002 £	2001 £
Acquisition costs	527,369	431,620
Administrative expenses	290,931	293,483
Gross operating expenses	818,300	725,103
Reinsurance commissions	(56,646)	(48,705)
	761,654	676,398

Auditors' remuneration in respect of audit services amounted to £39,450 (2001 £31,920). In respect of non-audit, services amounted to nil (2001 £8,250).

7. Staff costs

	2002 £	2001 £
Wages and salaries	89,893	106,396
Social security costs	6,400	6,194
	96,293	112,590

The average number of employees including the managing director was 2 (2001:2).

8. Remuneration of directors

	2002 £	2001 £
Directors' emoluments		
Remuneration as executives	74,633	91,668

9. Taxation

(a) Tax on profit on ordinary activities

	2002 £	2001 £
Current tax - United Kingdom corporation tax at 30% (2001 30%)	35,747	64,274
- Corporation tax (over)/under provided in prior year	(803)	1,385
	34,944	65,659
Deferred tax	-	-
Tax on profit on ordinary activities	34,944	65,659

(b) Factors affecting current tax charge

Profit on ordinary activities before tax	107,309	213,168
Profit on ordinary activities before tax at 30%	32,193	63,950
Expenses not deductible for tax purposes	2,417	2,820
Short term timing differences	(363)	(484)
Interest on corporation tax repaid	-	(2,012)
Adjustment in respect of the previous year	(803)	1,385
Other	1,500	-
	34,944	65,659

(c) Deferred tax

There is a deferred tax asset of £1,089 that has not been recognised, as in previous years, because it is felt that there is insufficient evidence that the asset will be recoverable. There are no deferred tax liabilities.

10. Other financial investments

	Market value 2002 £	Market value 2001 £	Cost 2002 £	Cost 2001 £
Other financial investments				
Government fixed interest	-	713,738	-	718,321
Other fixed interest	-	4,250,479	-	4,284,045
Deposits with credit institutions	8,616,358	3,837,731	8,616,358	3,837,731
Collective Investments	2,730,894	2,905,371	2,730,894	2,905,371
	11,347,252	11,707,319	11,347,252	11,745,468

11. Debtors arising out of reinsurance operations

	2002 £	2001 £
Amounts owed by parent undertaking	-	12,715
Amounts owed by third parties	50,533	110,313
	50,533	123,028

12. Other debtors

	2002 £	2001 £
VAT recoverable	1,366	969

13. Called up share capital

	2002 £	2001 £
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

14. Reserves

	Profit and loss account £
At beginning of year	366,210
Profit on ordinary activities after tax	72,365
Proposed final dividend	(30,000)
Foreign exchange translation difference on foreign currency net assets	14,350
Tax on foreign exchange translation difference	(4,305)
At end of year	418,620

15. Technical provisions

	Claims outstanding £
Gross amount	
At beginning of year	2,318,713
Exchange adjustment	(137,149)
Movement in the provision	(654,144)
At end of year	1,527,420
Reinsurance amount	
At beginning of year	686,203
Exchange adjustment	(39,380)
Movement in the provision	(220,699)
At end of year	426,124
Net technical provisions	
At end of year	1,101,296
At the end of previous year	1,632,510

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.

16. Creditors arising out of reinsurance operations

	2002 £	2001 £
Amounts owed to third parties	65,254	225,613

17. Other creditors including taxation and social security

	2002 £	2001 £
Amounts owed to parent undertaking	3,047	10,109
Corporation tax	40,052	48,255
Investment management fees	2,378	2,547
Auditors' fees	39,450	37,506
Other	6,331	3,322
Proposed dividend	30,000	30,000
	121,258	131,739

18. Commitments

There were no capital commitments at the end of the period (2001 £ Nil).

19. 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.

20. 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.