Financial Statements
31st December 2001

Tokyo-Mitsubishi International plc

Company Number : 1698498

Tokyo-Mitsubishi International plc

Directors' Report

The directors present their annual report and financial statements for the year ended 31st December 2001.

Principal Activities

As the London-based international capital markets arm of The Bank of Tokyo-Mitsubishi, Ltd., the company ("TMI") is active in the fixed income, derivatives, structured finance and equity-linked markets.

TMI is regulated by The Financial Services Authority and is a member of The London International Financial Futures & Options Exchange, the International Securities Market Association and the International Primary Market Association.

Results and Dividend

The results for the year are set out on page 8 and the profit for the year amounted to £1,224,000 (2000 loss £31,723,000).

The Directors do not recommend the payment of a dividend for 2001 (2000 nil).

Directors

The directors are as follows:

M Yamada
H Kimura
N Abe
K Komagata
T Fujimoto
T Heffernan
N Hirota
H Suzuki
H Watanabe
A D Loehnis, C.M.G.

Mr T Heffernan was appointed on 10th July 2001.

There were no resignations.

None of the directors had any interest in the shares of the company at any time during the year.

Employees

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion are encouraged. Various means are used to communicate with employees on personnel policies and issues and on the performance, objectives and business direction of the company.

Payment to Creditors

It is the company's policy to settle all of its trading transactions on the agreed settlement date. In relation to all of its suppliers, the policy is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The company does not follow any code or statement on payment practice. The number of days purchases outstanding for payment by the company at 31st December 2001 was 15 days.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Statement of Directors' Responsibilities

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

- select suitable accounting policies and 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

Richard House
Secretary

1st March 2002

6 Broadgate
London EC2M 2AA

Tokyo-Mitsubishi International plc

Independent Auditors' Report to the Members of Tokyo-Mitsubishi International plc

We have audited the financial statements on pages 4 – 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examinations, 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 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
London

1st March 2002

Accounting Policies

Basis of Preparation

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

Format of Financial Statements

The financial statements of a dealer in securities require special treatment, which is not dealt with in the statutory requirements, in order to present a true and fair view of its state of affairs and results. Accordingly, the directors believe that for the best presentation of the company's results and financial position, it is necessary to depart from the statutory accounting rules. A company dealing in securities has no equivalent to turnover, cost of sales and gross profit and therefore income from operations represents the net amount earned from trading and from holding positions in securities. Interest arising therefrom forms an integral part of the income from operations and, because it is reflected also in movements in market prices, should not be separately identified.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of dealing securities, and in accordance with applicable accounting standards and with the Companies Act 1985, except as noted below in respect of dealing securities.

Dealing securities held as current trading assets are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the profit/loss for the year of an investing enterprise that holds readily marketable investments as current assets since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available and therefore a note of the historical cost profit or loss, as required by paragraph 26 of Financial Reporting Standard No 3, has not been presented.

Securities

Securities held for trading purposes are stated at market value. Securities held to provide, in the longer term, income or capital growth are shown at cost less provision for any permanent diminution in value. Hence fair value adjustments are not made.

Open futures are accounted for on a marked-to-market basis unless they hedge long term investments, in which case gains or losses on the contracts are deferred and amortised over the life of the hedged instrument.

Transactions are accounted for on a trade date basis.

Accounting Policies *(continued)*

Derivatives

Derivative instruments are used as part of the Company's trading activities and are also used to hedge certain trading assets and liabilities. These contracts are marked to market on the balance sheet, and realised and unrealised gains and losses from trading activities, and associated hedges, are taken directly to profit and loss account. However certain derivatives entered into with a view to managing interest rate exposures, are accounted for on an accruals basis.

Assets and liabilities resulting from gains or losses on derivatives are reported in debtors or creditors as appropriate and are presented net by counterparty where there is a legal right to set off in accordance with general industry practice.

Management Fees and Commission

Management fees and commission are accounted for on an accruals basis.

Repurchase and Resale Agreements

Repurchase and resale agreements are stated at the marked to market value based on the net present value of the associated cash flows and are shown as creditors and debtors respectively.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies and open forward foreign exchange contracts are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are included in the profit and loss account. Fixed asset investments denominated in foreign currency are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are offset against the corresponding gain or loss on translating the matched borrowings.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of fixed tangible assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	10 - 25 years
Office furniture and fittings	5 years
Motor vehicles	4 years
Office machinery and computer software	4 years

Taxation

Corporation tax is recognised on taxable profits/losses at the current rate. Deferred taxation, calculated on the liability method at the rate at which the liability is likely to be paid, is provided to take account of timing differences arising from the different treatment of certain items for taxation purposes and for financial statement purposes. No deferred taxation is provided on those differences where, in the opinion of the Directors, it is probable that they will not reverse.

Pensions

Based on actuarial advice, pension costs are charged to the profit and loss account so as to produce a regular cost which is a substantially level percentage of the current and expected future pensionable payroll. Variations from the regular cost are allocated over the remaining service lives of current employees.

Business and Risk Management Policies

1 Role of Financial Instruments

a) The Nature and Purpose for which financial instruments are held

The company maintains positions in financial instruments for three principal reasons:

- as a result of the sale or assignment of structured or derivative positions to our clients (usually on the over-the-counter market);
- to hedge positions in our own books created by the business noted above; and
- for trading or arbitrage purposes.

In addition to the activities noted above the company also acts as agent for its customers in the purchase, sale and assignment of securities and derivatives listed on recognised investment exchanges.

b) An explanation of objectives, policies and strategies relating to financial instruments including hedging

The majority of the financial instruments are held as part of portfolios which are maintained and monitored by instrument or risk type. The positions thus maintained will result from the company's normal market activities. The company maintains a variety of hedging strategies. Individual trading areas are allocated risk limits based on a wide range of market factors and are required to maintain portfolios within those limits. As such they are responsible for maintaining hedges at a macro level.

The development of new business is subject to a detailed approval process, which aims to encourage the proactive identification of risks and rewards before the company transacts in new financial instruments or services. This process includes the setting of any limits applicable to the new business.

A more detailed explanation of risk strategy and factors is given below.

There have been no significant changes in the factors noted above as compared to the previous accounting period.

2 Risk Management

The company manages market risk through the Risk Management Committee, which is chaired by the Chief Executive Officer. Day to day responsibility rests with the independent risk management function, the head of which reports independently of the business units to the Chief Executive Officer of the company.

TMI uses a wide range of techniques to manage the market price risk in its trading book, including Value at Risk methodologies. The VaR of a trading book is the expected loss that will arise on the trading book over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). TMI uses VaR methodologies to monitor the price risks arising from different trading books. Actual profit and loss outcomes are also monitored to test the validity of the assumptions made in the calculation of VaR. The VaR figures disclosed below are based on a Variance/Covariance model combined with scenario analyses for options portfolios. Aggregate risk is computed as the square root of the sums of squares of individual groups of portfolios.

Business and Risk Management Policies *(continued)*

Assuming a 95% confidence level and a one-day holding period, the VaR for TMI's trading book as at 31st December 2001 was £1.9M (2000 £4.4M). The average, highest and lowest VaR for the trading book during 2001 were respectively £3.6M (2000 £4.0M), £5.6M (2000 £5.4M) and £1.9M (2000: £2.3M). This means that, on the basis of the risks in the trading book as at 31st December 2001, TMI expected not to incur a loss on its trading book of more than £1.9M in any one day more than 5% of the time. In both 2001 and 2000 the number of occasions on which actual trading book outcomes (both profits and losses) exceeded the previous day's VaR was within the expected bounds.

TMI recognises that VaR measures of market price risk, considered in isolation, have limitations. It is for this reason that TMI uses a wide range of other risk measurement techniques, for example stop-loss limits, position limits and risk factor sensitivity limits, to manage its market risk exposures. The VaR figures disclosed above have the following limitations.

- The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors, or be the best estimate of risk factor changes that will occur in the future.
- Using a one-day time horizon does not fully capture the market price risk of positions that cannot be closed off within one day. Similarly, focusing on the maximum loss that is to expected to be incurred 95% of the time says little about the smaller losses that are expected to be incurred more frequently, or the larger losses in excess of VaR that are expected to be incurred 5% of the time.
- All the VaR figures disclosed above are based on calculations performed at the end of each business day. The VaR during the course of a single day may change substantially, and the end-of-day figure may not be representative of the figure at other times of the day.
- The aggregation method used to derive the VaR figures disclosed above implicitly assumes independence between different groups of portfolios run by different businesses within TMI. This assumption may not be realistic, although it is the best estimate available based on empirical evidence. TMI does not rely solely on VaR measures to control the market risks in its trading book. Instead TMI sets a wide range of limits on other risk parameters which act as the main control on the risks incurred by different trading books.

The company manages its credit risks in accordance with credit policies determined by the parent bank. The credit function is independent of the business areas. Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy determining the maximum exposure on both a group and company basis. The company uses an internal credit rating system to manage the credit risk of individual counterparties.

Liquidity Risk is controlled by a process that ensures that cumulative financing requirements are restricted to pre-set levels, on both a next day and next eight calendar day basis. In addition, to ensure that the company has sufficient reserves to guard against any unforeseen event, the Treasury function operates within an unsecured funding limit that is set at a level below the estimated level of funds available. A key operating requirement of the Treasury function is to ensure that the company's long term assets, one year's annual operating expenses and long dated investments are covered by long term equity and existing credit lines.

During the course of Treasury's financing activities, there is often a need to swap surplus flows in one currency into another, a process achieved via swap transactions. Similarly, financial futures are also occasionally used to mitigate any interest rate risk arising from funding the company's operations.

Profit and Loss Account

For the year ended 31st December 2001

	Notes	2001 £'000	2000 £'000
Income from Operations	1	87,307	67,365
Administrative expenses	2 - 4	(86,083)	(102,215)
Operating Profit/(Loss) on ordinary activities before taxation	1	1,224	(34,850)
Taxation on ordinary activities	5	-	3,127
Profit/(Loss) on ordinary activities after taxation		1,224	(31,723)

The company has no recognised gains and losses during the current and previous year other than the profit for the year. All profits shown above are derived from continuing operations.

Tokyo-Mitsubishi International plc

Balance Sheet

As at 31st December 2001

	Notes		2001 £'000	2000 £'000
Fixed assets				
Tangible assets	6		14,411	12,840
Investment	21		2,085	2,128
			16,496	14,968
Current assets				
Debtors	7	3,704,430		7,855,595
Securities	8	2,023,999		3,475,722
Cash at bank and in hand		2,537		3,021
		5,730,966		11,334,338
Creditors: Amounts falling due within one year	9	(4,769,508)		(10,235,939)
Net current assets			961,458	1,098,399
Total assets less current liabilities			977,954	1,113,367
Creditors: Amounts falling due after more than one year	10		(694,775)	(831,412)
Net assets			283,179	281,955
Capital and Reserves				
Called up share capital	15		333,480	333,480
Profit and loss account	16		(50,301)	(51,525)
Shareholders' Funds	17		283,179	281,955

The financial statements on pages 4 to 20 were approved by the Board of Directors on 1st March 2002 and signed on its behalf by:

Kokichi Komagata
Director

1st March 2002

Tokyo-Mitsubishi International plc

Cash Flow Statement

For the year ended 31st December 2001

	Notes	2001 £'000	2000 £'000
Net cash inflow/(outflow) from operating activities	(i)	77,258	(20,534)
Capital expenditure	(ii)	(5,314)	(2,992)
Net cash inflow/(outflow) before financing		71,944	(23,526)
Net cash (outflow)/inflow from financing	(ii)	(73,054)	185,552
(Decrease)/Increase in cash in the year		(1,110)	162,026

Reconciliation of net cash flow to movement in net debt

		2001 £'000	2000 £'000
(Decrease)/Increase in cash in period		(1,110)	162,026
Cash inflow from increase in long-term debt		(375,897)	(339,190)
Cash outflow from redemption of long-term debt		286,669	61,929
Effect of foreign exchange		56,440	(14,352)
Other movements		162,282	91,709
Movement in net debt in period		128,384	(37,878)
Net debt at 1st January		(1,053,856)	(1,015,978)
Net debt at 31st December	(iii)	(925,472)	(1,053,856)

Tokyo-Mitsubishi International plc

Notes on the Cash Flow Statement

(i) Reconciliation of Operating profit to net Cash Flow in Operating Activities

	2001 £'000	2000 £'000
Income from operations	87,307	67,365
Administrative expenses	(86,083)	(102,215)
Depreciation charges	3,770	4,024
Profit on disposal of fixed assets	(27)	(20)
Tax refund	-	3,127
(Increase)/Decrease in securities	(2,009,598)	2,089,142
Decrease/(Increase) in debtors	4,151,165	(2,764,691)
(Decrease)/Increase in creditors	(2,012,879)	668,362
Effect of foreign exchange differences	(56,397)	14,372
Net cash inflow/(outflow) from operating activities	77,258	(20,534)

(ii) Analysis of Cash Flows for headings netted in Cash Flow Statement

	£'000	£'000
Capital Expenditure		
Additions to tangible fixed assets	(5,344)	(3,019)
Disposal of tangible fixed assets	30	27
Net cash outflow for capital expenditure	(5,314)	(2,992)
Financing		
Proceeds of notes issues and borrowing	482,654	764,299
Redemption of note issues and borrowing	(555,708)	(578,747)
Net cash (outflow)/inflow from financing	(73,054)	185,552

(iii) Analysis of changes in net debt

	At 1/1/01 £'000	Cash flows £'000	Other changes £'000	At 31/12/01 £'000
Cash in hand at bank	3,021	(484)	-	2,537
Overdrafts	(2,243)	(626)	-	(2,869)
	778	(1,110)	-	(332)
Debt due within 1 year	(223,222)	162,282	(169,425)	(230,365)
Debt due after 1 year	(831,412)	(89,228)	225,865	(694,775)
Total	(1,053,856)	71,944	56,440	(925,472)

Notes on the Financial Statements

1 Income from operations and profit/loss on ordinary activities before taxation

The whole of the income from operations and profit/loss on ordinary activities is derived from substantially the same class of business and in a market which is not delineated by geographical bands.

2 Administrative Expenses

	2001 £'000	2000 £'000
Staff costs (note 3)	53,191	59,175
Depreciation of fixed tangible assets	3,770	4,024
Operating lease rentals:		
Hire of quotation and communication equipment	3,609	3,602
Rental of premises	3,002	3,075
Auditors' remuneration:		
Audit fees	116	112
Non audit related fees	223	142
Profit on disposal of fixed assets	(27)	(20)
Other administrative expenses	22,199	32,105
	86,083	102,215

3 Staff costs

	2001	2000
Average number of employees	330	323
Employee costs	£'000	£'000
(Excluding directors' emoluments)		
Wages and salaries	46,164	50,545
Social security costs	4,572	5,662
Pension costs	2,455	2,968
	53,191	59,175

4 Directors' Emoluments

	2001 £'000	2000 £'000
Fees	-	-
Emoluments (excluding pension contribution)	1,275	1,120
	1,275	1,120

The emoluments of the highest paid director amounted to £300,506 (2000 £241,466).

Notes *(continued)*

5 Taxation on ordinary activities

There has been no charge made for UK corporation tax due to losses brought forward from previous years.

6 Fixed tangible assets

	Leasehold improvements £'000	Office furniture and fittings £'000	Motor vehicles £'000	Office machinery £'000	Total £'000
Cost					
At 1st January 2001	7,041	622	182	26,023	33,868
Additions	-	6	-	5,338	5,344
Disposals	(3)	-	(182)	-	(185)
At 31st December 2001	7,038	628	-	31,361	39,027
Depreciation					
At 1st January 2001	3,852	295	182	16,699	21,028
Charge for the year	448	103	-	3,219	3,770
Disposals	-	-	(182)	-	(182)
At 31st December 2001	4,300	398	-	19,918	24,616
Net book value at 31st December 2001	2,738	230	-	11,443	14,411
Net book value at 31st December 2000	3,189	327	-	9,324	12,840

7 Debtors: Due within one year

	2001 £'000	2000 £'000
Securities sold but not delivered	177,248	152,442
Reverse repurchase agreements	890,048	5,890,348
Amounts owed by group undertakings	159,664	129,777
Derivatives	2,063,385	1,299,970
Other debtors	392,288	233,783
Prepayments and accrued income	21,797	149,275
	3,704,430	7,855,595

Of the derivatives and reverse repurchase agreements, £435,661,069 (2000 £962,831,018) are marked to market value related to group undertakings.

Notes *(continued)*

8 Securities

	2001 Listed £'000	2001 Unlisted £'000	2000 Listed £'000	2000 Unlisted £'000
Dealing securities, at market value	1,987,706	36,293	2,347,515	1,122,135
Securities held at cost market value £Nil (2000 £5,850,979)	-	-	6,072	-
	1,987,706	36,293	2,353,587	1,122,135
Total	2,023,999		3,475,722	

Of the dealing securities £204,047,434 (2000 £431,081,933) are listed on the London Stock Exchange Limited and the rest on stock exchanges outside Great Britain.

9 Creditors: Due within one year

	2001 £'000	2000 £'000
Securities bought but not delivered	319,446	246,154
Repurchase agreements	1,223,583	3,280,159
Amount owed to group undertakings	132,621	566,403
Dealing securities at market value (listed)	530,465	3,789,065
Dealing securities at market value (unlisted)	-	202,721
Derivatives	2,227,782	1,557,811
Bank loans and overdrafts	2,869	2,243
Short term borrowings	230,365	223,222
Tax and social security	3,569	4,177
Other creditors	98,808	363,984
	4,769,508	10,235,939

Of the dealing securities, £1,853,919 (2000 £77,698,825) are listed on the London Stock Exchange Limited and the rest on stock exchanges outside Great Britain.
Of the derivatives and repurchase agreements, £852,216,317 (2000 £451,286,608) are marked to market value related to group undertakings.
Claims in respect of the short term borrowings amounted to £105,245,438 (2000 £167,841,557) are subordinated to the claims of other creditors.

10 Creditors: Due after more than one year

Amounts repayable within	2001 £'000 2-5 years	2001 £'000 over 5 years	2000 £'000 2-5 years	2000 £'000 over 5 years
Japanese Yen loans at rates of interest between 3.95% and 4.48%	105,245	-	233,814	-
USD notes at rates of interest between 6.89% and 8.5%	-	85,275	-	86,271
Japanese Yen notes at rates of interest between 0.1% and 4%	12,104	14,208	45,535	73,651
USD Floating Rate Notes	32,453	27,620	103,427	16,784
Japanese Yen Floating Rate Notes	105,212	241,538	126,789	75,990
Amount owed to group undertakings	71,120	-	69,151	-
	326,134	368,641	578,716	252,696
	694,775		831,412	

Claims in respect of the long term creditors amounted to £265,093,531 (2000 £389,235,043) are subordinated to the claims of other creditors.

Notes *(continued)*

11 Fair Values of Financial Assets and Liabilities

Set out below is a comparison by category of book amounts and fair values of the company's trading and non-trading financial assets and liabilities. Certain comparative figures have been re-classified in order to be consistent with the current categories below.

	2001		2000	
	Book Amount £'000	Fair Value £'000	Book Amount £'000	Fair Value £'000
Instruments held or issued to finance the company's operations				
Debt securities issued and loans received	(801,075)	(813,914)	(891,945)	(923,393)
Money market assets	47,111	47,111	164,858	164,858
Money market liabilities	(80,714)	(80,807)	(560,581)	(560,656)
Derivatives	412,735	425,287	413,023	444,324
Funding offset with trading and investment areas	432,232	432,317	883,391	883,468
Investment assets and liabilities				
Debt securities	-	-	6,072	5,851
Derivatives	-	(422)	10,323	9,951
Funding offset with financing area	213,918	213,858	228,014	228,201
Trading assets and liabilities				
Securities	2,023,999	2,023,999	3,469,650	3,469,650
Securities (short positions)	(530,465)	(530,465)	(3,991,786)	(3,991,786)
Debt securities issued	(124,065)	(124,065)	(162,689)	(162,689)
Repurchase agreements	(1,223,583)	(1,223,583)	(3,280,159)	(3,280,159)
Reverse repurchase agreements	890,048	890,048	5,890,348	5,890,348
Derivatives	(577,132)	(577,132)	(708,369)	(708,369)
Funding offset with financing and non-trading areas	(646,150)	(646,150)	(1,111,405)	(1,111,405)

All futures contracts shown above are entered into on a recognised exchange. Profits and losses on futures contracts are paid to the relevant exchange on a daily basis. On a mark-to-market basis, the balance sheet value of these contracts net of such payments is therefore zero.

Notes *(continued)*

Certain trading assets are funded by non-trading or financing areas. Where this is the case, the above amounts include the effects of the transaction with the relevant trading area.

Hedge transactions are accounted for in accordance with the accounting treatment of the underlying transaction. Any hedge gains or losses recognised during the year offset gains or losses on the item being hedged. The unrecognised and deferred gains and losses on hedges at 31st December 2001 are not material.

12 Foreign Currency Exposures

The company's objective in managing currency exposures is to minimise exposure to currency related risks. As a natural consequence of trading in a multi-currency environment the company will make profits in a number of currencies. These profits are periodically converted into sterling.

Within financing and non-trading areas the foreign currency exposures of assets and liabilities is not material.

13 Interest Rate Sensitivity Gap Analysis

The following tables provide an analysis of the aggregate amounts of financing and non-trading assets and liabilities, analysed by category of asset and liability and, within those categories, into time bands. The interest rate sensitivity of the trading assets and liabilities are included within the VaR analysis at page 6.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31st December 2001							
Non-trading assets							
Money market assets	47,111	-	-	-	-	-	47,111
Derivatives	266,250	45,255	-	26,312	74,918	-	412,735
Other internal assets with trading books	646,150	-	-	-	-	-	646,150
Non-interest bearing assets	-	-	-	-	-	142	142
Total non-trading assets	**959,511**	**45,255**	-	**26,312**	**74,918**	**142**	**1,106,138**

Notes *(continued)*

Interest Rate Sensitivity Gap Analysis *(continued)*

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-trading liabilities							
Money market liabilities	(80,714)	-	-	-	-	-	(80,714)
Debt securities issued & loans received	(418,321)	(108,397)	(39,993)	(131,133)	(103,231)	-	(801,075)
Non-interest bearing liabilities	-	-	-	-	-	(5,223)	(5,223)
Total non-trading liabilities	**(499,035)**	**(108,397)**	**(39,993)**	**(131,133)**	**(103,231)**	**(5,223)**	**(887,012)**
Off balance sheet items	**(209,812)**	**87,176**	**59,993**	**34,330**	**28,313**	**-**	**-**
Interest rate sensitivity gap	**250,664**	**24,034**	**20,000**	**(70,491)**	**-**	**(5,081)**	**219,126**
As at 31st December 2000							
Non-trading assets							
Money market assets	164,858	-	-	-	-	-	164,858
Debt securities	6,072	-	-	-	-	-	6,072
Derivatives	333,518	3,108	-	13,877	72,843	-	423,346
Other internal assets with trading books	1,109,491	1,870	-	-	-	-	1,111,361
Non-interest bearing assets	-	-	-	-	-	148	148
Total non-trading assets	1,613,939	4,978	-	13,877	72,843	148	1,705,785
Non-trading liabilities							
Money market liabilities	(558,712)	(1,869)	-	-	-	-	(560,581)
Debt securities issued & loans received	(448,274)	(76,720)	(19,272)	(156,626)	(191,053)	-	(891,945)
Non-interest bearing liabilities	-	-	-	-	-	(8,895)	(8,895)
Total non-trading liabilities	(1,006,986)	(78,589)	(19,272)	(156,626)	(191,053)	(8,895)	(1,461,421)
Off balance sheet items	(816,384)	258,153	19,272	420,749	118,210	-	-
Interest rate sensitivity gap	(209,431)	184,542	-	278,000	-	(8,747)	244,364

Certain trading assets are funded by non-trading or financing areas. Where this is the case, the above amounts include the effects of the transaction with the relevant trading area. In each case above the balance of assets represents the invested share capital of the previous year less the financing requirement of the operating expenditure.

Notes *(continued)*

14 Gains and losses on financial assets and financial liabilities held or issued for trading

The net gain from trading in financial assets and liabilities shown in the profit and loss account for the year ended 31st December 2001 can be analysed into the following business areas:

	2001 £'000	2000 £'000
Fixed income	53,678	31,035
Equity	2,235	29,234
Structured products	14,110	11,640
Commodity	3,114	3,071
	73,137	74,980

All of the above business areas include securities and derivative instruments.

15 Called up share capital

	2001		2000	
	No '000	£'000	No '000	£'000
Ordinary shares of £1 each:				
Authorised	500,000	500,000	500,000	500,000
Allotted, called up and fully paid	333,480	333,480	333,480	333,480

16 Reserves

	Profit and Loss Account £'000
Balance at 1st January 2001	(51,525)
Profit for the year	1,224
Balance at 31st December 2001	(50,301)

17 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Opening shareholders' funds	281,955	313,678
Retained profit/(loss) for the financial year	1,224	(31,723)
Closing shareholders' funds	283,179	281,955

Shareholders' funds are solely attributable to equity interests.

Notes *(continued)*

18 Guarantees, Contingent Liabilities and Commitments

In the ordinary course of its business the company entered into contracts for swaps, futures and options and other financial instruments. Annual commitments under non-cancellable operating leases, all of which expire in over five years time are £2,932,000 (2000 £2,932,000).

There were no material outstanding guarantees or contingent liabilities, other than those incurred in the normal course of the company's business on which no loss is expected.

19 Pension Fund

On 6th April 1997 a Group Personal Pension Plan (GPPP) was started for certain employees. With effect from 2nd July 1999 all employees joining the company are entitled to join the GPPP.

The Company also provides a defined benefit pension scheme which was closed to new entrants from 2nd July 1999. An actuarial valuation was performed as at 6th April 2000. The results of the valuation, which was performed using the attained age method, showed that the assets of the scheme amounted to £30,079,408 and were sufficient to secure 106% of the liabilities of the scheme based on projected final pensionable salaries. The main actuarial assumptions were an investment rate of return of 8.5% per annum, an increase in salaries of 7% and that pensions would increase in payment by 4.5%. The charge to the Profit and Loss Account for 2001 was £1,495,090 (2000 £1,792,230).

Financial Reporting Standard 17 (FRS 17)

Whilst TMI continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24, the following transitional disclosures are required under FRS 17. An update to the last actuarial valuation was performed as at 31st December 2001 in accordance with the principles of FRS 17 and the major assumptions were as follows:-

Rate of Increase in Salaries	4.25%
Limited Price Indexation Pension Increases	2.75%
Discount Rate	6.00%
Inflation Assumption	2.75%

The fair value of the scheme assets (which are not intended to be realised in the short term and may be subject to significant change before they are realised) and the present value of the scheme's liabilities (which are derived from cash flow projections over long periods and are thus inherently uncertain) were:-

	Value £'000
Equities	24,803
Bonds	3,460
Cash	1,420
Total market value of assets	29,683
Present value of scheme liabilities	(34,601)
Net pension liability	(4,918)

Notes *(continued)*

20 Related Party Transactions

Disclosures in respect of related party transactions are not required because the company, as a wholly owned subsidiary, is entitled to the exemption given in Financial Reporting Standard 8 (FRS 8).

21 Investment in Subsidiary

The company owns the whole of the issued ordinary share capital in the following subsidiaries:

	Country of Incorporation	Main Activity
BTM Securities (Spain) S.A., S.V.B.	Spain	Securities dealing
TMI Nominees Limited	United Kingdom	Nominee for TMI

The subsidiaries have been treated as fixed asset investments and are stated at cost adjusted for exchange rate fluctuations. Both subsidiaries are not consolidated into the company's financial statements as they are not material for the purpose of giving a true and fair view.

22 Ultimate Holding Company

The company is a wholly owned subsidiary of its ultimate holding company, Mitsubishi Tokyo Financial Group, Inc. which is incorporated in Japan. The company's financial statements are consolidated in the accounts of Mitsubishi Tokyo Financial Group, Inc. Copies of the group financial statements of the ultimate holding company are available from:

Mitsubishi Tokyo Financial Group, Inc.
10-1, Yurakucho 1-chome
Chiyoda-ku
Tokyo 100-0006
Japan