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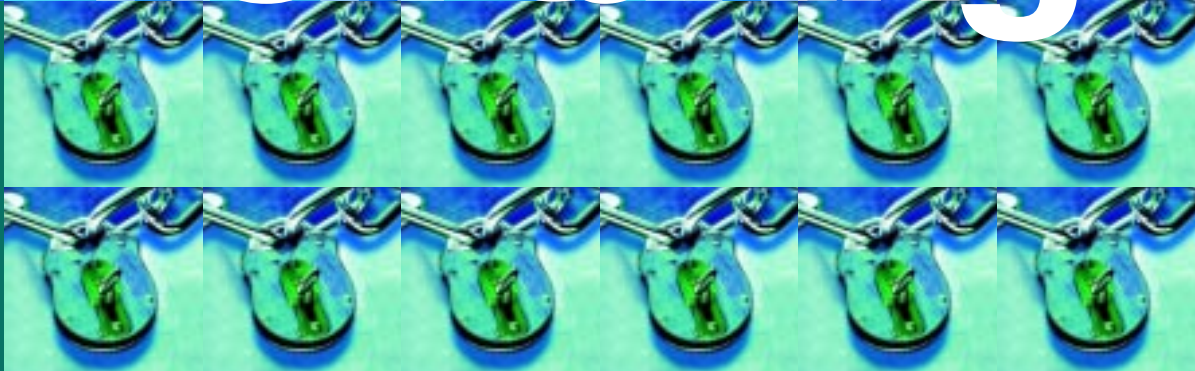




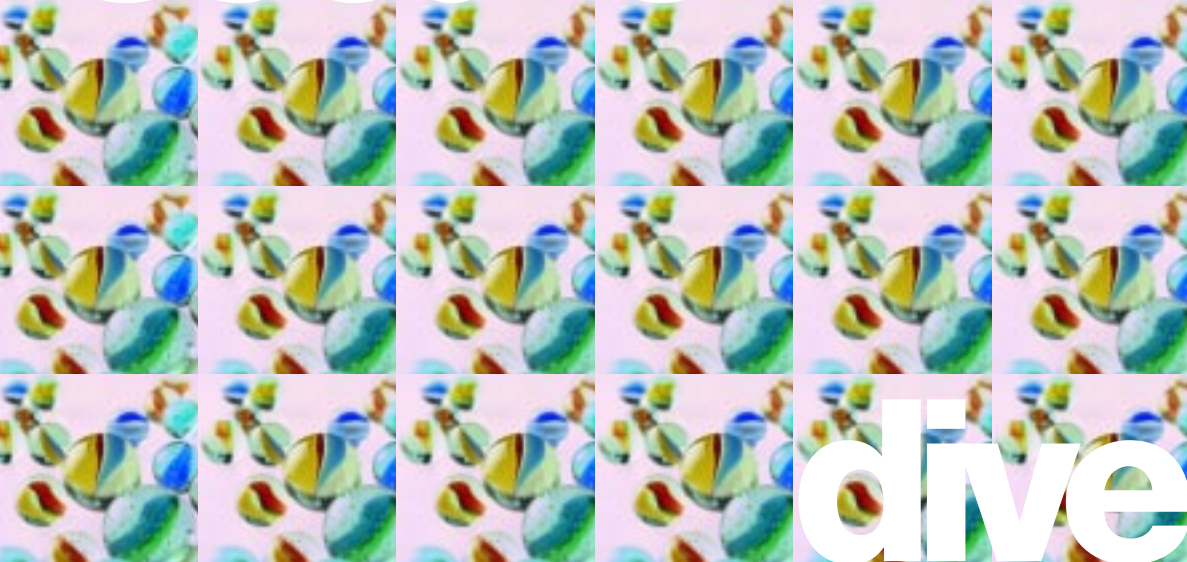
At Lloyd's of London we underwrite everything from car engines to Internet search engines. But all our policies have something in common – every one is tailored to our clients' needs.

# risk-taking

As important as the insurance policy itself, is the security behind it. The Lloyd's market is backed by assets that total more than £18bn.



# secure



Every day, thousands of brokers and underwriters meet in the Lloyd's insurance market. It is this creative interaction which characterises Lloyd's and gives our clients an unparalleled choice of business solutions.

# diverse

As a subscription market able to cover the largest risks, and with a collective licence network across 64 territories, together Lloyd's underwriters offer the depth and breadth of coverage required in an increasingly global business environment.



# unified

# annual report 2000

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## Chief Executive Officer's report



**Nick Prettejohn** *Chief Executive Officer*

**The Corporation's change programme progressed throughout 2000. We continued to streamline the Corporation in order to focus on the key objective of managing the Lloyd's franchise.**

Against this background, we sold two Corporation departments during the year – IT Direct and Lloyd's Aviation. Lloyd's Policy Signing Office (LPSO) and Lloyd's Claims Office (LCO) were established as commercial subsidiaries and Catering, Property Services and the Systems Development Group were outsourced. These changes have had a substantial impact on the Corporation headcount.

I am pleased to report that the Society was successful in defending the fraud action brought against it by over 200 members of Lloyd's. The allegations concerned the Market's exposure to, and Lloyd's knowledge of, asbestosis claims between 1978-88. The Judge found that Lloyd's acted honestly, and was complimentary about regulatory developments of the time. Many people in the Society worked very hard in defence of this action and their efforts in assisting Lloyd's to answer those allegations are appreciated by members of the Society and the Market. At the time of writing, the Names are seeking permission from the Court of Appeal, the Judge having already denied leave, to appeal. We are confident, however, that the Court's original decision will stand. I trust that this will be the last major action of its kind and can bring to a close a troubled and now distant chapter in Lloyd's past. Consistent with the Judge's objective of bringing an end to the litigation, an offer was made in January 2001 to non-accepting Names to settle their debts with Lloyd's.

### **lloyds.com**

One of the more exciting activities we have undertaken at Lloyd's over the past year has been the planned re-launch of lloyds.com as a commercial insurance and reinsurance hub. Run on a commercial basis, the new-look lloyds.com will be a business-to-business insurance site for intermediaries around the world. The aim of this virtual marketplace is to provide intermediaries with

counterparty identification, a range of information and the ability to transact online while also assembling in one space the services and products that intermediaries may require. The site has two advantages: it makes Lloyd's more accessible and it enhances the main Lloyd's brand.

### **Worldwide Markets**

In December 2000, the Business Development Unit and North American Unit merged to create Worldwide Markets. The primary role of the combined teams remains unchanged: to protect, develop and enhance Lloyd's trading status around the world.

Lloyd's made significant progress in improving its trading status in key markets. Following amendments to relevant legislation, more favourable trading arrangements were introduced in Australia on 1 July. We reached an agreement in principle with Canadian regulators to enhance trading arrangements there. In the United States we worked to strengthen our relationship with our key State regulators and the National Association of Insurance Commissioners.

We also sought to develop new markets. In February 2000, Lloyd's Asia in Singapore was established allowing several managing agents to trade through this vehicle. In November, we opened a representative office in Beijing and appointed our first representative in China.

We continued to contain, or reduce where possible, the costs of our overseas offices. In Canada, a new subsidiary was created and most of the activities and functions of the office were outsourced to a new entity in order to streamline business processes.

In January 2001, Lloyd's introduced a new broker accreditation process, allowing more intermediaries greater access to the market. This followed the transfer of broker regulation to the newly formed General Insurance Standards Council (GISC) in July 2000.

### Marketing & Communications

Marketing & Communications implemented a marketing plan highlighting the collective features and benefits of the Lloyd's market structure. The primary objective was to build awareness and knowledge of the Lloyd's brand amongst audiences who were less familiar with the market.

An advertising campaign, concentrated primarily in the UK, ran in the first six months of the year and was supported by direct mail pieces over the same period. Follow-up research among 400 brokers showed encouragingly high levels of recall.

The success of reaching audiences worldwide was enhanced as our database was installed in Lloyd's overseas offices, resulting in a 25% increase in broker and risk manager data records.

Marketing & Communications continued to provide opportunities for market firms to participate in insurance events and to promote their own products.

### Insurance Services

Insurance Services' change programme continued with the emphasis moving from streamlining and cost reduction to the improvement of services. This involved the overhaul of business processes and the creation of commercial partnerships. Throughout the year, Insurance Services continued to provide technological resources to support all aspects of electronic business processing at Lloyd's – from electronic claims handling to the infrastructure for lloyds.com – in addition to participating in a number of industry-wide initiatives to improve service efficiency.

The two main business processing units within Insurance Services – LCO and LPSO – were incorporated as subsidiaries of the Corporation as a first step towards establishing them as independent commercial entities. The IUA-Lloyd's Forum, together with the London Market

Brokers Committee (LMBC), added impetus to this change programme by setting an agenda for radical reform of London market business practice. One of the Forum's key objectives was to bring together the service bureaux operations of Lloyd's and the IUA – LPSO and the London Processing Centre – to create a common service provider for the London market. This will be achieved through the creation of a joint venture with Xchanging Limited who will bring capital, technology resources and commercial expertise to a partnership in which the IUA and Lloyd's will be equal shareholders. At the time of writing, this transaction is within days of its anticipated completion date.

Initiatives to create a marine claims services business are also underway. The planned radical improvements to current claims handling procedures will enhance the competitiveness of the Lloyd's marine market.

### Members' Services Unit

MSU launched a major change programme in 2000 with two main objectives. First, to increase value for money for members by developing a stronger focus on customers – members and agents – encompassing better services delivered with improved quality at lower prices. Second, to manage reductions in the MSU cost-base over the next few years in line with the reducing number of members of Lloyd's. As part of that process, a substantial reduction in headcount was realised by outsourcing IT.

During 2000, MSU provided services for 17,000 members and facilitated the reporting arrangements of all managing agents. The annual timetable was delivered on schedule, including distribution and auctions, and quality service standards were achieved consistently. The Unit's costs were kept in line with income, despite considerable volume increases relating to market losses. The number of run-off members in Lloyd's Members' Agencies Services (LMAS) increased by 2,600 to 4,000.

## Chief Executive Officer's report *continued*

### Property Services

The Corporation's restructuring programme has resulted in less demand for office space. Against this background, Property Services completed the sale of the 1958 Building in February 2001 to a major property developer. The Corporation will continue to occupy the building until 31 December 2001, whereupon the site will be re-developed. Affected staff will relocate to the 1986 Building and to Gun Wharf, Chatham and replacement catering facilities for the Corporation and the Market will be installed on the lower ground floor of the 1986 Building.

### Commercial Directorate

In December 2000, the newly-created Commercial Directorate assumed responsibility for Lloyd's strategic business relationships including those with market firms, capital providers and investors, rating agencies, business analysts and the insurers of Lloyd's Central Fund.

Lloyd's financial strength ratings were re-affirmed during 2000 by both A.M. Best (A Excellent) and Standard & Poor's (A+ Strong), despite the fact that Lloyd's is emerging from a period of severely depressed trading conditions that has resulted in a negative ratings outlook for the property/casualty industry.

In our drive to permit Lloyd's syndicates to write, buy and develop ART products, the Directorate assisted in making arrangements to permit syndicates to write financial guarantee business, providing they have the necessary additional capitalisation and sufficient resources and skills to participate in the business without undue risk.

### Regulatory Division

The Regulatory Division continued through 2000 to develop its role as internal market supervisor, as the FSA prepares to take on the responsibility of external regulator. In practical terms this has meant an increasingly close relationship with those departments charged with promoting the commercial development of the market, but at the same time maintaining the integrity of the "raising standards" programme endorsed by both the Regulatory and Market Boards. The report of the Regulatory Board elsewhere in this document outlines many of the key regulatory issues that have occupied the division during 2000.

Monitoring and supervision remain the core function of the division, with resources allocated to those at greatest risk of incurring financial loss. The small team specialising in investigating allegations of possible misconduct was brought into the monitoring department to provide a more seamless exchange of information between the functions of supervision, business conduct review and investigations.

### Corporate governance

The Council has overall responsibility for the system of internal control and for reviewing its effectiveness. The Corporation's executive team is responsible for the

implementation and maintenance of the internal control system. This incorporates an embedded, ongoing process for identifying, evaluating and managing significant business, operational, financial, compliance and other risks. The system is designed to reduce, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee, on behalf of Council, monitors the effectiveness of the system of internal control of the Corporation. Lloyd's maintains an internal audit function that provides regular reports to the Audit Committee. The external auditors also contribute an independent perspective on aspects of financial control and annually report their findings to the Audit Committee and the Council.

An annual budget for the Corporation is reviewed in detail by the Management Committee and is approved by the Lloyd's Market Board and Council. Monthly financial reports compare actual performance with the annual budget and management action is taken where variances arise. Revised forecasts are prepared at least quarterly.

The operation of effective risk management is the responsibility of all managers. This is kept under review by Internal Audit and the Internal Control Committee, which is responsible for ensuring that the Corporation maintains effective and efficient internal control, and compliance with FSA and related requirements. The Corporation is committed to the highest standards of business conduct and has a clearly defined organisational structure.

### Financial commentary

The Society's overall financial position continues to improve. By the end of 2000, the net asset deficiency that arose following the Society's contribution to the Reconstruction & Renewal settlement had been eliminated. In anticipation of this, the Society was able to reduce the level of members' subscriptions for 2000 to 0.25% of premium limits from 0.35% in 1999.

Although the exceptional legal costs of defending the Society against litigation have contributed to an operating deficit for the year of £25m, total operating costs were reduced. After net interest and various exceptional items resulting from Reconstruction & Renewal, the result for 2000 is an overall surplus for the year after taxation of £119m.

In 1996, the Society obtained a £285m syndicated bank loan, repayable by a 1.1% premium levy on the entire market, and a £24m mortgage loan secured on the Lloyd's 1958 Building. By the end of 2000, the syndicated loan had been reduced to £78m. We anticipate that the loan will be repaid during 2001. In February 2001, the mortgage loan was repaid using part of the proceeds from the sale of the 1958 Building.

Debt recoveries in 2000 were £34m. In January 2001, a settlement offer was made to Names with outstanding liabilities who did not accept Reconstruction & Renewal in an attempt to avoid further recourse to the courts for recovery. In constructing the offer, careful consideration was given to the position of Names who accepted Reconstruction & Renewal or who have subsequently settled. Well over 100 Names accepted the offer, or have applied for further assistance. Lloyd's remains determined to secure the maximum amount available from those Names who have not accepted the settlement offer, and yet have the ability to pay.

*Finally, I would like to thank all Corporation staff for their dedication and hard work during this challenging year of restructuring and change. The senior management team has performed exceptionally well in implementing those changes. Three highly valued members of the Corporation retired this year and I thank them for their contribution to the Society: Bob Hewes, Finance Director, after 12 years; Andrew Duguid, Development Director, after 13 years; and Mike Stott, Controller of Agencies, after 42 years.*

A handwritten signature in blue ink, appearing to read "Nid Brown", with a long, sweeping horizontal stroke extending to the right.

## Report of the Nominations, Appointments and Compensation Committee

The Council of Lloyd's is assisted in determining the remuneration of members of the Council, Lloyd's Market Board (LMB) and Lloyd's Regulatory Board (LRB) by the Nominations, Appointments and Compensation Committee (NACC). The NACC also recommends for approval by the Council fees, salaries, bonuses and the terms and conditions of the Chairman of Lloyd's and the Chief Executive Officer and also reviews those of the six most senior executives in the Corporation.

This report is consistent with the recommended code of best practice proposed by the Greenbury Committee. Greenbury is directed at companies listed on the Stock Exchange, whereas Lloyd's is responsible for the superintendence of a market of many separate and competing trading entities: nonetheless, Council supports its principles in so far as they apply to the governance of the Society.

### Composition of NACC

The NACC currently comprises three nominated, two working and three external members of the Council as shown on page 42. Saxon Riley and Paul Archard also served on the Committee during 2000.

### Remuneration policy

Lloyd's remuneration policy for all employees is set out in the Personnel Manual as follows:

"To provide a package (salary plus benefits) which is competitive, innovative and fair. The remuneration policy is also founded on the proposition that the ultimate source of value is people, which means a reward system that responds creatively to employee needs as well as those of the business. This means a policy which:

- emanates from business strategies and goals;
- is based on business success (ability to pay);
- provides a balanced mix of rewards which will attract, retain and motivate the varied range of experience and skills required by the organisation;
- is externally competitive and regularly monitored by means of salary surveys;
- rewards for performance not cost of living or position in hierarchy."

Bonuses, which are discretionary, are awarded for performance judged annually against demanding business objectives. The NACC's policy is that an increasing proportion of executive remuneration should be at risk and determined by performance review. A long-term incentive scheme has also been introduced which links a proportion of the future remuneration of the Chief Executive and senior Corporation executives to the overall profitability of the Lloyd's market. No payments were made in 2000.

To assist in its annual review of executive remuneration the NACC makes reference to the terms and conditions prevailing in other comparable organisations operating in the financial services sector.

Remuneration for non-executive positions is designed to attract people of sufficient calibre and experience to govern Lloyd's affairs by providing an appropriate level of fees which reflects the demands made upon them. Reference is also made to independent surveys of fees for non-executive directors of significant private sector organisations.

### Levels of remuneration

The Chairman of Lloyd's during 2000 was Max Taylor. He received a salary of £430,000, (£420,000 during 1999), and a contribution towards pension of 37.5% of salary. He was awarded a bonus of £50,000 for his performance during 2000. The value of his other benefits (car allowance and life, long term disability and medical insurances) during the year was £35,000. He was the highest paid Council member in 2000.

Saxon Riley was elected Chairman of Lloyd's for 2001. This is a part-time appointment and he provides his services for three days per week on average. His fees, which are non-pensionable, are £200,000 per annum and the benefits provided by Lloyd's amount to £41,000.

The salary of the Chief Executive Officer, Nick Prettejohn, was £300,000 per annum in 2000 (£250,000 per annum in 1999) with a 37.5% actual and notional contribution to his pension. The annual cost of his benefits (car and medical insurance) was £10,700. He was awarded a bonus of £120,000 for his performance during 2000.

The Chairman of the Regulatory Board, John Young (also a Deputy Chairman of Council) received fees at the rate of £75,000 per annum in 2000, these being unchanged from previous years. The fees for the other Deputy Chairmen of Council were £25,000 per annum.

Fees for members sitting on Council, LMB, LRB and Committees were restructured for 2000. The fees for members of Council were set at £20,000 per annum. Council members who also sat on LMB or LRB received an additional £5,000 per annum. A further £2,500 per annum was paid to those attending Council or LRB Committees, while the people who chaired these Committees received £5,000 per annum.

### Contracts of employment

External and working members are elected and nominated members are appointed to Council usually for a three year period. This is not a contractual arrangement and compensation is not paid if a member leaves early. The Chairman and two Deputy Chairmen of Lloyd's are elected by the Council on an annual basis.

## Report of the Nominations, Appointments and Compensation Committee *continued*

The current Chairman of Lloyd's works part time for the Society and has been engaged on a one year contract. The contract of the Chief Executive Officer, who works full time, has a one year notice period.

### **Alastair Ross Goobey**

Chairman  
Nominations, Appointments and Compensation Committee

## Employment policy

### Communication and employee involvement

The Corporation actively promotes the understanding and involvement of employees in the business objectives of Lloyd's by a variety of means including:

Briefings for all employees at open forums conducted by the CEO to explain business progress, discuss future plans and answer questions.

Discussion between the CEO, directors, senior management and different employee groupings throughout the year to exchange ideas, listen to suggestions and respond to queries.

Regular team meetings to keep employees informed and encourage discussion of matters of general and specific interest and to provide feedback to management.

A Corporation Intranet (C-Net) which provides a means of communicating information rapidly and simultaneously to all employees. This includes a means for employees to communicate directly with the CEO.

Various publications that supplement the methods of communication described above.

### Equal opportunities

The Corporation takes steps to ensure that all applicants and employees receive equal treatment regardless of sex or sexual orientation, race, colour, ethnic or national origins, religion, marital status or disability.

The Corporation does not just avoid discrimination as required by law, but adopts policies and practices which treat as irrelevant all factors which do not genuinely affect a person's capability to undertake the work in question. The only criteria in selecting employees for recruitment, promotion and development are capability and performance.

The Corporation is a member of the 'Opportunity Now' campaign which works with employers to realise the economic potential and business benefits that women contribute to the workplace and, more generally, encourages diversity and an inclusive culture in the workplace.

### Training and development

The Corporation actively encourages employees to obtain relevant qualifications and to develop their full potential. Training and development is available to all staff. A system of internal job advertising is in place and many vacancies are filled by internal transfer and promotion.

## Members of the Council of Lloyd's and Lloyd's Market & Regulatory Boards 2001

### Council of Lloyd's

#### Working members

- Saxon Riley *(Chairman of Lloyd's)*  
 † John Coldman *(Deputy Chairman of Lloyd's)*  
 † Bronek Masojada *(Deputy Chairman of Lloyd's)*  
 \* Nigel Hanbury  
 Graham McKean  
 David Robson

#### External members

- Wellington (Five) Limited *(represented by Julian Avery)*  
 Paul Kelly  
 ACE Capital Limited *(represented by Bill Loschert \* †)*  
 \* † Peter Morgan  
 Amlin Corporate Member Limited *(represented by Charles Philipps)*  
 Catlin Westgen Limited *(represented by Paul Swain †)*

#### Nominated members

- \* † Judith Hanratty  
 \* Bill Knight  
 \* Brian Pomeroy  
 Nick Prettejohn *(Chief Executive Officer)*  
 † Alastair Ross Goobey  
 † John Young

### Lloyd's Market Board

- Nick Prettejohn *(Chairman of Lloyd's Market Board)*  
 Gilles Bonvarlet  
 Brian Carpenter  
 Simon Clapham  
 Christine Dandridge  
 Michael Dawson  
 David Foreman  
 David Gittings  
 Nigel Hanbury  
 Judith Hanratty  
 Julian James  
 Graham McKean  
 Peter Morgan  
 Andrew Moss  
 Charles Philipps  
 Roger Sellek

### Lloyd's Regulatory Board

- John Young *(Deputy Chairman of the Council of Lloyd's  
Chairman of Lloyd's Regulatory Board)*  
 Brian Pomeroy *(Deputy Chairman of Lloyd's Regulatory Board)*  
 Rupert Atkin  
 John Barber  
 Lady Delves Broughton  
 David Gittings  
 Anthony Howland Jackson  
 Paul Kelly  
 Bill Knight  
 Bill Loschert  
 David Robson  
 Alastair Ross Goobey  
 John Stace  
 Paul Swain  
 Anthony Townsend

- \* Member of Audit Committee  
 † Member of Nominations, Appointments and  
 Compensation Committee

## Statement of Lloyd's responsibilities in respect of the accounts

Byelaws made under the Lloyd's Act 1982 require Lloyd's to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Corporation and of the surplus or deficit for that period. The accounts are required to be approved by the Council of Lloyd's.

The Council has determined that in preparing those accounts it is appropriate 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 Corporation will continue in business.

Lloyd's is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Corporation. The Council is responsible for safeguarding the assets of the Corporation and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Report of the auditors to the members of Lloyd's

We have audited the accounts on pages 44 to 60, which have been prepared under the historical cost convention as modified by the revaluation of investments and on the basis of the accounting policies, set out on pages 47 and 48.

### Respective responsibilities of Lloyd's and auditors

As described above Lloyd's is responsible for the preparation of the accounts, which are approved by the Council of Lloyd's. 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 UK 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 Lloyd's in the preparation of the accounts and of whether the accounting policies are appropriate to the Corporation'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 Corporation of Lloyd's as at 31 December 2000 and of the surplus for the year then ended.

### Ernst & Young

Registered Auditor  
London  
4 April 2001

## Consolidated revenue account

for the year ended 31 December 2000

	<i>Note</i>	2000 £000	1999 £000
<b>Operating income</b>	3	<b>146,240</b>	164,406
<b>Operating expenses</b>	4	<b>(171,166)</b>	(173,243)
<b>Operating deficit</b>		<b>(24,926)</b>	(8,837)
<b>Profit on disposal of businesses</b>	24	<b>319</b>	–
<b>Deficit on ordinary activities before interest</b>		<b>(24,607)</b>	(8,837)
<b>Interest</b>			
Interest income	7	<b>8,406</b>	10,222
Interest payable	7	<b>(15,470)</b>	(23,314)
		<b>(7,064)</b>	(13,092)
		<b>(31,671)</b>	(21,929)
Premium levy income	8	<b>97,891</b>	81,277
Market settlement recoveries	8	<b>34,385</b>	21,246
Exchange loss on syndicated bank loan	17	<b>(187)</b>	(4,916)
<b>Surplus before taxation</b>		<b>100,418</b>	75,678
<b>Taxation credit</b>	9	<b>18,198</b>	1,191
<b>Surplus for the year</b>	22	<b>118,616</b>	76,869

There are no recognised gains or losses in the year other than those dealt with in the revenue account.



## Consolidated cash flow statement

for the year ended 31 December 2000

	Note	2000 £000	1999 £000
<b>Cash flow from operating activities</b>	20	<b>113,260</b>	126,130
Returns on investments and servicing of finance	20	<b>(8,515)</b>	(12,942)
Taxation		<b>(1,319)</b>	(13)
Capital expenditure	20	<b>(3,462)</b>	(6,858)
Disposals of businesses	20	<b>2,557</b>	–
<b>Cash inflow before use of liquid resources and financing</b>		<b>102,521</b>	106,317
Management of liquid resources	20	<b>86,756</b>	43,408
Financing	20	<b>(173,095)</b>	(155,450)
<b>Increase/(decrease) in cash in the period</b>		<b>16,182</b>	(5,725)
<b>Reconciliation of net cash flow to movement in net debt (note 20)</b>			
Increase/(decrease) in cash in the period		<b>16,182</b>	(5,725)
Cash outflow from decrease in financing		<b>173,095</b>	155,450
Cash inflow from decrease in liquid resources		<b>(86,756)</b>	(43,408)
<b>Change in net debt resulting from cash flows</b>		<b>102,521</b>	106,317
Other movements	20	<b>594</b>	(7,158)
<b>Movement in net debt in the period</b>		<b>103,115</b>	99,159
<b>Net debt at 1 January</b>		<b>(113,222)</b>	(212,381)
<b>Net debt at 31 December</b>	20	<b>(10,107)</b>	(113,222)

# Notes to the financial statements

at 31 December 2000

## 1 Purpose of financial statements

### *Basis of preparation and consolidation*

The Society of Lloyd's was incorporated under the Lloyd's Act 1871 and is subject to the provisions of the Lloyd's Acts 1871 to 1982.

The purpose of the financial statements is to demonstrate the income and expenditure, financial position and cash flows of the Corporation of Lloyd's to members in their capacity as members. The financial statements exclude all insurance-related activities arising from members' underwriting at Lloyd's. In meeting this objective certain operating subsidiaries are consolidated whilst others, principally Lioncover Insurance Company Limited and Centrewrite Limited, are excluded since their activities relate to running off the underwriting affairs of certain syndicates and Names. The Council considers that to consolidate such results would be misleading in presenting the financial position of the Corporation of Lloyd's to its membership. For the same reasons the Central Fund, which is held at the Council's direction, has not been consolidated, as it is primarily a fund available for the protection of policyholders.

Funds administered by the Corporation of Lloyd's on behalf of trustees or held at the Council's direction as part of the security underlying policies issued at Lloyd's are not included in the financial statements.

Except for the matters described above, the financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and, in all material respects, in accordance with applicable accounting standards and the Companies Act 1985.

The comparative figures for the preceding period in *note 6* have been reclassified to provide a more meaningful disclosure of both location and category of overseas operating expenses.

FRS13 "Derivatives and other financial instruments – disclosures" has not been adopted as it does not apply to the Corporation. However, certain voluntary disclosures have been given in *notes 17* and *21* including a discussion of treasury policies and the management of risk.

For the year ended 31 December 2000 the Corporation has adopted FRS15 "Tangible fixed assets" and FRS16 "Current taxation". There has been no material impact on the financial statements as a result of adopting these standards.

## 2 Principal accounting policies

### *A Tangible fixed assets and depreciation*

Fixed assets are included at cost.

Freehold land is not depreciated. Depreciation is provided on other assets at rates calculated to write off, on a straight-line basis, the cost less estimated residual value over their expected useful lives. The principal categories of assets and their expected useful lives are as follows:

Freehold buildings	60 years
Plant	15 or 25 years
Fixtures, fittings, furniture, computers, software and equipment	2 to 10 years
Motor vehicles	4 years

Costs incurred in acquiring and developing computer software for internal use are capitalised as tangible fixed assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

## Notes to the financial statements *continued*

### 2 Principal accounting policies *continued*

#### B Investments

Investments comprise securities and cash deposits maintained in the UK and various overseas countries to comply with local insurance regulations. Investments are shown at market value at the balance sheet date and profits and losses arising on revaluation are dealt with in the revenue account.

#### C Stocks and work in progress

Stocks are stated at the lower of cost, on a first-in first-out basis, and net realisable value.

#### D Income

Income is attributable to the continuing activity of the provision of services and infrastructure principally for the operation of the Lloyd's insurance market.

Income, which is stated net of value added tax, represents amounts invoiced for goods and services provided, including members' subscriptions and application fees for corporate members.

Income excludes local premium taxes in connection with overseas underwriting activities.

#### E Pension costs

The expected cost of pensions in respect of the defined benefit pension scheme operated by the Corporation of Lloyd's is charged to the revenue account so as to spread the cost over the service lives of employees in the scheme. Variations from regular cost are spread over the expected remaining service lives of current employees to the extent that the resulting credit does not exceed the regular cost. The pension cost is assessed in accordance with the advice of qualified actuaries.

#### F Taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise.

#### G Foreign currency and derivative instruments

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Any unhedged foreign exchange differences are taken to the revenue account.

The Corporation and its consolidated subsidiaries primarily use forward currency contracts to hedge exposures to fluctuation in foreign exchange rates. Where such contracts are used to sell or buy currencies, these are converted at closing rate of exchange and any variance between closing and contracted rate is included in the value of the underlying asset or liability.

The Corporation and its consolidated subsidiaries primarily use interest rate swaps to hedge exposures to fluctuation in interest rates. Amounts payable or receivable in respect of interest rate swap agreements are recognised as adjustments to the interest expense over the period of the contracts. Interest rate swaps extant at the year end are not revalued to fair value or shown in the Corporation's balance sheet.

The principal year-end exchange rates were:

	2000	1999
US\$	1.49	1.61
Can\$	2.24	2.34

<b>3 Operating income</b>	2000 £000	1999 £000
<b>Market charges</b>		
Managing agents and syndicates	75,399	71,063
Members and members' agents	16,402	14,186
Regulatory levy	7,927	–
Lloyd's broker regulation and subscriber fees	2,083	3,154
	<b>101,811</b>	<b>88,403</b>
<b>Members' subscriptions</b>	<b>25,167</b>	<b>34,508</b>
<b>Other income</b>		
Equitas	1,382	24,203
Rent and building service charges	7,539	7,273
Income from other services	10,341	10,019
	<b>19,262</b>	<b>41,495</b>
<b>Total operating income</b>	<b>146,240</b>	<b>164,406</b>

<b>4 Operating expenses</b>	2000 £000	1999 £000
Operating expenses include:		
Employment costs ( <i>note 5</i> )	53,195	70,316
Overseas operating expenses ( <i>note 6</i> )	18,136	17,401
Professional fees, including legal fees and related costs	32,384	29,332
Auditors' remuneration	130	126
Other fees payable to Ernst & Young	1,512	1,053
Depreciation ( <i>note 10</i> )	7,342	7,191
Charitable donations	290	275
Income Support Schemes	–	1,695

In 2000, Income Support Schemes' payments approved by Council have been charged to the Lloyd's Central Fund.

<b>5 Employment</b>	2000 £000	1999 £000
Salaries and wages (including performance-related bonus)	38,848	50,372
Pension costs	590	484
Social security costs	3,911	4,676
Severance costs	2,808	4,012
Contract and agency staff	2,908	4,824
Other employment costs	4,130	5,948
	<b>53,195</b>	<b>70,316</b>
	2000 Number	1999 Number
Average numbers of employees during the year	<b>1,176</b>	<b>1,645</b>

The surplus on the pension scheme is being eliminated by a contribution holiday (*see note 16*).

The emoluments of the Chairman, Chief Executive Officer, members of Council, Market Board and Regulatory Board are included in the report of the Nominations, Appointments and Compensation Committee on pages 40 and 41.

## Notes to the financial statements *continued*

<b>6 Overseas operating expenses</b>	2000 £000	1999 £000
Expenses in connection with underwriting activities in the following areas:		
USA	7,144	6,843
Canada	3,724	3,238
Asia	3,615	3,347
Europe	2,363	2,969
Africa, Australasia, Central and South America	1,290	1,004
	<b>18,136</b>	17,401
Made up of the following:		
Employment	6,607	6,752
Legal and professional	5,904	5,711
Premises	1,553	1,426
Other expenses	4,072	3,512
	<b>18,136</b>	17,401

Local premium taxes amounting to £15.1m (1999: £12.8m) have been excluded on the basis that the Corporation of Lloyd's is acting only as intermediary between the Lloyd's market and overseas statutory bodies.

<b>7 Interest</b>	Syndicated bank loan £000	Other interest £000	Statutory insurance deposits £000	2000 Total £000	1999 £000
Interest receivable	–	2,915	5,491	8,406	10,222
Interest payable:					
Bank loans/overdrafts	(8,769)	(1,743)	–	(10,512)	(16,612)
Other loans	–	–	(5,704)	(5,704)	(7,209)
Foreign exchange movement					
– realised	–	–	668	668	237
– unrealised	–	–	78	78	270
	<b>(8,769)</b>	<b>(1,743)</b>	<b>(4,958)</b>	<b>(15,470)</b>	<b>(23,314)</b>

<b>8 Premium levy income and market settlement recoveries</b>	2000 £000	1999 £000
Premium levy income:		
– receivable at 1 January	(6,768)	(5,812)
– collected and paid to banks ( <i>note 17</i> )	97,161	82,818
– receivable at 31 December	8,809	6,768
– refundable in respect of return premiums at 31 December	(1,311)	(2,497)
	<b>97,891</b>	81,277

The syndicated bank loan is repayable out of a premium levy of 1.1% on premiums written in the Lloyd's market.

	2000 £000	1999 £000
Market settlement recoveries	34,385	21,246

During 1997, Lloyd's discharged its obligation to fund Equitas in accordance with the Reconstruction & Renewal Completion Agreement dated 3 September 1996. The market settlement has continued to generate recoveries, principally from debt recovery activity, that have been credited to income.

<b>9 Taxation credit/(charge)</b>	2000 £000	1999 £000
UK corporation tax based on profits for the year at 30% (1999: 30.25%)	<b>(553)</b>	–
Prior year adjustments		
– tax credits arising from release of prior year provisions	<b>10,006</b>	–
– group tax relief from non-consolidated subsidiary	<b>8,764</b>	–
Deferred taxation credit ( <i>note 19</i> )	–	1,204
Overseas tax charge	<b>(19)</b>	(13)
	<b>18,198</b>	1,191

Following the agreement of prior year tax computations, sufficient tax losses have been made available to cover prior year taxable profits. This has resulted in a prior year tax credit which includes £8.8m receivable for excess losses that were surrendered to a non-consolidated subsidiary. Prior year losses brought forward have covered the majority of the 2000 taxable income.

<b>10 Fixed assets</b>	Freehold land and buildings £000	Plant and other fixed assets £000	Total £000
Cost:			
At 1 January 2000	<b>41,600</b>	<b>76,880</b>	<b>118,480</b>
Additions	–	<b>4,747</b>	<b>4,747</b>
Disposals	–	<b>(4,565)</b>	<b>(4,565)</b>
At 31 December 2000	<b>41,600</b>	<b>77,062</b>	<b>118,662</b>
Depreciation:			
At 1 January 2000	<b>17,054</b>	<b>57,108</b>	<b>74,162</b>
Charge for the year	<b>1,836</b>	<b>5,506</b>	<b>7,342</b>
Disposals	–	<b>(4,067)</b>	<b>(4,067)</b>
At 31 December 2000	<b>18,890</b>	<b>58,547</b>	<b>77,437</b>
Net book value:			
At 31 December 2000	<b>22,710</b>	<b>18,515</b>	<b>41,225</b>
At 31 December 1999	24,546	19,772	44,318

Included in freehold land and buildings is land valued at £4.2m which has not been depreciated in the year.

On 8 February 2001, the Corporation sold the Lloyd's 1958 Building. Further details are included in *note 23*.

## Notes to the financial statements *continued*

<b>11 Principal active subsidiary companies</b>	Nature of business	Proportion of equity capital held
Additional Securities Limited	Provision of deposits overseas on behalf of Lloyd's underwriters to comply with local insurance regulations	100%
Centrewrite Limited	Authorised UK insurance company	100%
Lioncover Insurance Company Limited	Authorised UK insurance company	100%
LPSO Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the Lloyd's insurance market	100%
LCO Marine Limited	Provision of claims and recoveries services	100%
LCO Non-Marine and Aviation Limited	Provision of claims and recoveries services	100%
lloyds.com Limited	Web-based commercial insurance and reinsurance portal for insurance intermediaries and sophisticated buyers	100%

Centrewrite and Lioncover are not consolidated. See note 12.

LPSO, LCO Marine, LCO Non-Marine and Aviation and lloyds.com all commenced trading during 2000 and are consolidated in these financial statements.

## 12 Subsidiary companies not consolidated

	2000 £000	1999 £000
Shares of non-consolidated subsidiary companies at cost	44	44
Current accounts	72	326
	<b>116</b>	<b>370</b>

<b>Non-consolidated insurance related subsidiaries: 2000 balance sheet summary</b>	Centrewrite £000	Lioncover £000	Total £000
Investments	43,921	–	43,921
Current assets	27,542	54	27,596
Current liabilities	(13,763)	(53)	(13,816)
	<b>57,700</b>	<b>1</b>	<b>57,701</b>
Creditors over one year:			
Insurance fund	(22,612)	–	(22,612)
Shareholders' funds at 31 December 2000	<b>35,088</b>	<b>1</b>	<b>35,089</b>
Shareholders' funds at 31 December 1999	30,816	1	30,817
Retained profit for the year	<b>4,272</b>	<b>–</b>	<b>4,272</b>

### Centrewrite Limited

Centrewrite, an authorised UK insurance company, was formed to reinsure individual syndicate years of account in run-off and individual members of such syndicates. In addition, it offers an estate protection plan to Names.

### Lioncover Insurance Company Limited

Lioncover, an authorised UK insurance company, was formed to reinsure the liabilities of Names on syndicates formerly managed by PCW Underwriting Agencies Limited, WMD Underwriting Agencies Limited and Richard Beckett Underwriting Agencies Limited, and on syndicates 2 and 49 (collectively referred to as the PCW syndicates). On 18 December 1997, all of Lioncover's reinsurance liabilities were reinsured to Equitas Reinsurance Limited.

The accounts for Lioncover are drawn up to 31 March. As these accounts are not yet available the above figures have been produced from the management accounts as at 31 December 2000.

<b>13 Statutory insurance deposits</b>	2000 £000	1999 £000
Held by subsidiary companies:		
Statutory insurance deposits	<b>55,836</b>	141,575
Funding provided by syndicates and Equitas	<b>(49,852)</b>	(134,697)
	<b>5,984</b>	6,878

In June 2000, the requirement for Lloyd's Underwriters to provide security for a Deed of Covenant relating to business written in Australia, ceased with the establishment of Lloyd's Australian Trust Funds. This resulted in the maturity of statutory insurance deposits and a refund to syndicates of £91.5m.

<b>Statutory insurance deposits</b>	Securities £000	Cash Deposits £000	2000 Total £000	1999 Total £000
Movement in the year:				
Market value at beginning of year	<b>27,691</b>	<b>113,884</b>	<b>141,575</b>	192,834
Additions at cost	<b>16,032</b>	<b>120,540</b>	<b>136,572</b>	1,574,179
Disposal proceeds	<b>(18,880)</b>	<b>(204,122)</b>	<b>(223,002)</b>	(1,624,105)
(Loss)/gain on disposal	<b>(451)</b>	<b>1,924</b>	<b>1,473</b>	(694)
Year end revaluation	<b>1,687</b>	<b>(2,469)</b>	<b>(782)</b>	(639)
Market value at end of year	<b>26,079</b>	<b>29,757</b>	<b>55,836</b>	141,575

<b>Statutory insurance deposits</b>	2000 Cost £000	2000 Valuation £000	1999 Cost £000	1999 Valuation £000
Listed on:				
London Stock Exchange	<b>3,173</b>	<b>3,152</b>	2,860	2,853
Overseas stock exchanges	<b>20,131</b>	<b>19,693</b>	24,252	22,022
	<b>23,304</b>	<b>22,845</b>	27,112	24,875
Unlisted:				
Fixed interest	<b>3,702</b>	<b>3,234</b>	3,231	2,816
	<b>27,006</b>	<b>26,079</b>	30,343	27,691

Basis of valuation: listed fixed and floating rate securities are valued at their quoted market price at the balance sheet date. Unlisted fixed interest securities are valued as follows:

	2000 £000	1999 £000
Foreign treasury bills – at market value	<b>2,397</b>	1,976
Foreign government debentures – at par and market value	<b>837</b>	840
	<b>3,234</b>	2,816

## Notes to the financial statements *continued*

### 13 Statutory insurance deposits *continued*

#### Funding provided by syndicates and Equitas

These amounts comprise floating rate advances in foreign currencies and sterling repayable within one year:

	2000 £000	1999 £000
Equitas	(8,031)	(11,032)
Lloyd's market:		
– deposit	(41,821)	(36,481)
– re Australian Deed of Covenant	–	(87,184)
	<b>(49,852)</b>	<b>(134,697)</b>
Allocated:		
Financing of underwriting deposits	(44,885)	(129,506)
Working capital	(4,967)	(5,191)
	<b>(49,852)</b>	<b>(134,697)</b>

Finance is arranged by advances from syndicates in the Lloyd's market and from Equitas. These advances are renewed annually. By agreement with the lenders, investment returns earned by the company on these assets, together with profits, or losses, arising from foreign exchange hedging activity, are paid, in appropriate proportions, to the lenders. In this way, the company avoids any risk arising from a mismatch between borrowing and lending terms (*see note 21*).

The terms and conditions of these advances are governed by the Membership (Overseas Deposits) Byelaw (No 2 of 1992) which enables the Council of Lloyd's to vary the amount, term and rate of interest of these loans, as appropriate. The provision of funds by members under this Byelaw is in respect of the establishment and maintenance of overseas deposits and is a condition relating to permission to underwrite insurance business at Lloyd's.

### 14 Stocks and work in progress

	2000 £000	1999 £000
Consumables	749	786
Work in progress	–	857
	<b>749</b>	<b>1,643</b>

### 15 Debtors and prepayments

	2000 £000	1999 £000
Due within one year:		
Trade and other debtors	31,428	38,252
Corporation tax	3,630	–
Group tax relief receivable	8,764	–
Prepayments	14,430	15,229
	<b>58,252</b>	<b>53,481</b>

### 16 Pension scheme prepayment

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund. The latest actuarial valuation of the scheme was carried out by Watson Wyatt Partners, consulting actuaries, as at 30 June 1998 using the projected unit method. The principal actuarial assumptions adopted in the valuation were that (in real terms relative to retail price inflation), present and future pensions in payment would remain constant whilst total pensionable remuneration would increase by 1.75% per annum. The real rate of return on investments held at the valuation date was assumed to be 2.6% per annum on assets backing the liabilities for deferred pensions and pensions in payment, and 3.6% per annum on assets backing the liabilities for current active members of the scheme. The market value of the scheme's assets at the date of valuation was £321m, which equates to some 131% of the benefits that had accrued to members, after allowing for assumed future increases in pensionable remuneration. The surplus in the scheme is being eliminated by a pension contribution holiday.

The next valuation will be conducted as at 30 June 2001.

<b>17 Creditors – due within one year</b>	2000 £000	1999 £000
Bank overdrafts and bank borrowings through the money market	–	2,234
Instalments due on loans : syndicated bank loan	<b>78,352</b>	80,705
: mortgage loan	<b>24,000</b>	–
Accruals and deferred income	<b>39,931</b>	53,458
Trade and other creditors	<b>40,247</b>	30,731
Arbitration awards	<b>6,494</b>	11,549
Taxation and social security	<b>8,995</b>	14,900
	<b>198,019</b>	193,577

Included within accruals and deferred income are members' subscriptions of £0.9m (1999: £12.3m) and agents' regulatory levy of £0.4m (1999: £3.6m).

It is the policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Corporation and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2000, the Corporation had an average of 31 days purchases outstanding in trade creditors (1999: 31 days).

#### Syndicated bank loan

In August 1996, the Corporation of Lloyd's obtained a £300m loan facility from a syndicate of seven banks. On 3 September 1996, £285m of this facility was drawn down and contributed to the market settlement. In June 1998, the terms of the loan were re-negotiated and in August 1998 a further £48m was drawn down to partially fund the commutation with Equitas of a liability under the Reconstruction & Renewal Completion Agreement dated 3 September 1996. When the terms of the loan were re-negotiated in June 1998 the final maturity date was extended to 31 December 2002. However, it is expected that the loan will be fully repaid by 31 December 2001. The loan now bears interest at LIBOR plus 0.5%. As at 31 December 2000, interest rate swaps result in an effective interest rate of 6.71%. The movements during the year are:

	2000 £000	1999 £000
Balance at 1 January	<b>166,505</b>	264,270
Interest charge	<b>8,769</b>	14,991
Bank charges	<b>52</b>	57
	<b>175,326</b>	279,318
Loan redemption	–	(34,911)
Premium levy receipts used to repay loan ( <i>note 8</i> )	<b>(97,161)</b>	(82,818)
	<b>78,165</b>	161,589
Exchange loss	<b>187</b>	4,916
Balance at 31 December	<b>78,352</b>	166,505
The loan is repayable as follows:		
Within one year	<b>78,352</b>	80,705
Between one and two years	–	85,800
	<b>78,352</b>	166,505

The loan is repayable in sterling and US dollars in order to match more closely the projected currency mix of the future premium levy from which the loan will be repaid. As at 31 December 2000 the outstanding balance comprised £31.6m repayable in sterling and US\$75.3m repayable in US dollars.

#### Mortgage loan

As at 31 December 2000, the mortgage loan outstanding was £24m and bore interest at 6.55%. The mortgage was redeemed on 8 February 2001 as a result of the sale of Lloyd's 1958 Building (*see note 23*).

#### 18 Creditors – due after more than one year

Loans repayable between one and two years at 31 December 1999 consisted of the syndicated bank loan (£85.8m) and the mortgage on the Lloyd's 1958 Building (£24m).

## Notes to the financial statements *continued*

<b>19 Deferred taxation</b>	2000 £000	1999 £000
Provision at 1 January	–	1,204
Credit for the year	–	(1,204)
Provision at 31 December	–	–

A deferred tax asset of £2m relating to accelerated capital allowances on fixed assets has not been provided in the accounts.

<b>20 Notes to the cash flow statement:</b>	2000 £000	1999 £000
<b>A Reconciliation of operating profit to operating cash flows</b>		
Operating deficit	<b>(24,926)</b>	(8,837)
Premium levy collection	<b>97,161</b>	82,818
Market settlement recoveries	<b>34,385</b>	21,246
Depreciation charges	<b>7,342</b>	7,191
Profit on sale of fixed assets	<b>(103)</b>	(66)
Profit on disposal of businesses	<b>(319)</b>	–
(Profit)/loss on disposal of insurance deposits	<b>(1,473)</b>	694
Loss on revaluation of insurance deposits	<b>782</b>	639
(Profit)/loss on revaluation of underwriting loans	<b>(116)</b>	350
(Increase)/decrease in stocks	<b>(355)</b>	134
Decrease/(increase) in debtors	<b>7,362</b>	(5,472)
(Decrease)/increase in creditors	<b>(6,480)</b>	27,433
Net cash inflow from operating activities	<b>113,260</b>	126,130
<b>B Analysis of cash flows for headings netted in the cash flow statement</b>		
Returns on investments and servicing of finance:		
Interest received	<b>9,238</b>	11,294
Interest paid	<b>(17,753)</b>	(24,236)
	<b>(8,515)</b>	(12,942)
Capital expenditure:		
Purchase of tangible fixed assets	<b>(3,931)</b>	(7,276)
Sale of tangible fixed assets	<b>469</b>	418
	<b>(3,462)</b>	(6,858)
Disposals of business operations:		
Sale of businesses	<b>2,557</b>	–
Management of liquid resources:		
Purchase of cash deposits	<b>(120,214)</b>	(1,559,779)
Purchase of securities	<b>(16,032)</b>	(20,918)
Sale of cash deposits	<b>204,122</b>	1,602,928
Sale of securities	<b>18,880</b>	21,177
	<b>86,756</b>	43,408
Financing:		
Decrease in borrowings for insurance deposits	<b>(84,729)</b>	(50,858)
Repayment of short-term borrowing	–	(1,352)
Repayment of syndicated bank loan	<b>(88,366)</b>	(103,240)
	<b>(173,095)</b>	(155,450)

**20 Notes to the cash flow statement** *continued*

C Analysis of net debt	At 1.1.00 £000	Cash flow £000	Other movements £000	At 31.12.00 £000
Cash in hand, at bank	72,639	13,622	–	86,261
Overnight deposit ( <i>see below, a</i> )	9,774	326	–	10,100
Overdrafts ( <i>see below, b</i> )	(2,234)	2,234	–	–
	80,179	16,182	–	96,361
Short-term deposits ( <i>see below, a</i> )	131,801	(86,756)	691	45,736
Debt due within one year:				
Statutory insurance deposits	(134,697)	84,729	116	(49,852)
Corporation ( <i>see below, b</i> )	(80,705)	80,705	(102,352)	(102,352)
Debt due after one year	(109,800)	7,661	102,139	–
	(113,222)	102,521	594	(10,107)

a) "Overnight deposit" and "short-term deposits" are included in the balance sheet under "statutory insurance deposits"

b) "Overdrafts" and Corporation "debt due within one year" are included in the balance sheet under creditors.

**21 Treasury policies and interest rate exposure of financial assets and liabilities as at 31 December 2000**

This note summarises the objectives and policies for holding financial instruments and similar contracts, and the strategies for achieving those objectives.

**Interest Rate Risk**

As at 31 December 2000, the Corporation had a variable rate syndicated bank loan with an outstanding balance of £78.4m and a £24m variable rate mortgage. Exposure to interest rate movements is managed through interest rate swaps, exchanging floating for fixed rate liabilities. With outstanding borrowings forecast to reduce over time, the nominal value of such swaps amortises monthly. Between 50% and 100% of all outstanding borrowings at any time will be protected from interest rate risk in this way. As at 31 December 2000, 52% of the sterling interest rate risk and 94% of the US dollar interest rate risk had been swapped into fixed rates.

**Liquidity Risk**

The value and term of short-term assets are carefully monitored against those of the Corporation's liabilities. The Corporation aims to maintain sufficient liquid assets to meet liabilities as they fall due, however a total of £40m of standby committed borrowing facilities were also available to the Corporation as at 31 December 2000. There are no plans to utilise these facilities, which are available to meet unforeseen short-term requirements.

**Foreign Currency Risk**

Forward foreign exchange contracts are used to minimise foreign exchange exposures arising in the course of business. To ensure that transactions are of marketable size, and administration minimised, currency balances are held and levels of exposure accrued before offsetting the combined exposure. Consequently, limited foreign exchange exposures may exist, although these are carefully controlled. The sterling value of investment assets denominated in other currencies may also be protected by forward foreign exchange contracts. Where the local currency value of these assets fluctuates, such hedging activity is necessarily approximate. Hedging arrangements are adjusted periodically, but modest currency exposures may arise in the interim.

**Counterparty Risk**

A list of approved bank counterparties for the purposes of money-market investment and foreign exchange is maintained and reviewed quarterly by the Lloyd's Investment Committee. Strong credit ratings and substantial balance sheets are required and stringent parameters are applied to all investments, including issuer restrictions, to ensure appropriate diversification. Where intermediaries are involved in transactions, settlement occurs directly with the ultimate counterparty. "Delivery versus Payment" security settlement systems are used wherever possible to minimise exposures.

## Notes to the financial statements *continued*

### 21 Treasury policies and interest rate exposure of financial assets and liabilities as at 31 December 2000 *continued*

	Financial assets			Financial liabilities			Net financial assets/ (liabilities) £000
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000	
Sterling	3,152	44,499	47,651	(28,922)	(60,457)	(89,379)	(41,728)
United States dollar	–	25,867	25,867	(43,930)	(9,632)	(53,562)	(27,695)
Canadian dollar	398	12,595	12,993	–	–	–	12,993
Japanese yen	–	9,405	9,405	–	(1,232)	(1,232)	8,173
Australian dollar	754	32	786	–	–	–	786
Switzerland franc	18,786	7,712	26,498	–	(5,506)	(5,506)	20,992
Singapore dollar	–	6,218	6,218	–	(602)	(602)	5,616
South African rand	–	2,918	2,918	–	(1,923)	(1,923)	995
Cyprus pound	385	1,701	2,086	–	–	–	2,086
Others	2,642	5,033	7,675	–	–	–	7,675
	<b>26,117</b>	<b>115,980</b>	<b>142,097</b>	<b>(72,852)</b>	<b>(79,352)</b>	<b>(152,204)</b>	<b>(10,107)</b>
Of which:							
Unhedged statutory insurance deposits	9,686	15,230	24,916	–	(49,852)	(49,852)	(24,936)
Hedged statutory insurance deposits	16,431	14,489	30,920	–	–	–	30,920
Cash and deposits	–	86,261	86,261	–	–	–	86,261
Gross borrowings	–	–	–	(72,852)	(29,500)	(102,352)	(102,352)
	<b>26,117</b>	<b>115,980</b>	<b>142,097</b>	<b>(72,852)</b>	<b>(79,352)</b>	<b>(152,204)</b>	<b>(10,107)</b>

Hedged statutory insurance deposits reflect an unrealised foreign exchange loss of £302,000 arising from the revaluation to fair value of all forward foreign exchange contracts extant at the year end.

	2000 £000	1999 £000
<b>22 Accumulated reserves</b>		
Balance at 1 January	(99,456)	(176,325)
Surplus for the year	118,616	76,869
Balance at 31 December	19,160	(99,456)
Attributable to:		
Corporation of Lloyd's	11,194	(104,787)
Consolidated subsidiaries	7,966	5,331
	<b>19,160</b>	<b>(99,456)</b>

### 23 Post balance sheet event

On 8 February 2001, the Corporation entered into an agreement with Sabrex Limited, a subsidiary of British Land plc, for the sale of its freehold interest and the simultaneous leaseback of the Lloyd's 1958 Building.

The sale price of £49.3m included land, buildings, plant and other assets. The leaseback expires on 31 December 2001 with rent payable of £4m. The net book value of the assets sold at 31 December 2000 was £23.6m. The sale agreement requires £15m to be held in escrow. This is payable to Lloyd's, together with interest, when certain conditions have been fulfilled. The sale agreement also provides for Lloyd's to benefit from any enhanced value as a result of the site being redeveloped.

No chargeable gain is expected to arise in respect of the above sale as the indexed tax base cost exceeds the chargeable proceeds received.

The mortgage loan of £24m which was secured on the property was repaid on the same date.

	Total 2000 £000
<b>24 Sale of business operations</b>	
Tangible fixed assets	132
Stocks and work in progress	1,249
Debtors	1,218
Creditors	(361)
	<b>2,238</b>
Profit on disposal	319
	<b>2,557</b>
<b>Satisfied by:</b>	
Net cash consideration	<b>2,557</b>

Business operations sold during 2000 were Lloyd's Aviation and IT Direct. The sale of Lloyd's Aviation was completed on 18 July 2000 to Charles Taylor Group plc and the sale of IT Direct was completed as a management buyout on 29 December 2000.

	2000 £000	1999 £000
<b>25 Commitments</b>		
<i>a) Capital expenditure commitments</i>		
Contracted for but not provided in the accounts Corporation	-	1,200
<i>b) Operating lease commitments</i>		
The annual commitments under non-cancellable operating leases are as follows:		
	2000 <b>Land and buildings</b> £000	1999 Land and buildings £000
Leases expiring:		
Over five years	<b>11,600</b>	11,600

Commitments outstanding under the terms of the lease for the Lloyd's 1986 Building have been included at current rental value to the first break of the lease after 25 years.

## Notes to the financial statements *continued*

### 26 Disclosure of related party transactions

Advantage has been taken of the exemption allowed by FRS8 "Related Party Disclosures", from disclosing transactions with entities within the group.

During 2000, the Corporation paid fees of £144,000 for professional services rendered by Simmons & Simmons in which Bill Knight, a member of Council, is a partner.

Estate Protection Plan policies issued by Centrewrite Limited in respect of the 2000 calendar year were offered to members of Council on the same terms as they were offered to other members of Lloyd's. The aggregate premiums paid in respect of these policies purchased by members of Council were £250.

There were no other related party transactions.

### 27 Contingent liabilities

**A** General average guarantees have been given on behalf of, and secured by, underwriters and approved companies. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2000 amounted to £7.2m (1999: £6m).

**B** The Corporation of Lloyd's has given indemnities to Lioncover Insurance Company Limited, Centrewrite Limited and to certain Names under hardship and other agreements in respect of their underwriting losses. The Council has determined that any losses resulting from such indemnities will be met by the Central Fund. The accounts of the Central Fund on pages 64 to 70 give further details of the indemnities and the exposures arising.

**C** Bank guarantees and other arrangements have been entered into by the Corporation of Lloyd's and its subsidiary, Additional Securities Limited, to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

				2000	1999
				£000	£000
Guarantees provided by the Corporation of Lloyd's:					
USA	US\$	1,500,000	(1999: US\$ 1,500,000)	<b>1,000</b>	900
Guarantees provided by the Corporation of Lloyd's and Additional Securities Limited:					
Cayman Islands	US\$	1,000,000	(1999: US\$ 1,000,000)	<b>700</b>	600

**D** The Corporation of Lloyd's has given indemnities to certain of its subsidiary companies, and the directors thereof, in respect of any claims or actions which may be brought against them or any future operating losses incurred by them in connection with the companies' activities. The Corporation of Lloyd's has also given indemnities to and has agreed to cover certain specific costs that may be incurred by members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board and their respective sub-committees, Corporation staff and also certain individuals and organisations who have been asked to carry out or provide services to the Corporation or on behalf of or for the benefit of its members. Provision for any costs that may arise from these indemnities and agreements is made annually.

**E** On 28 February 2000, the trial of an action commenced against the Corporation of Lloyd's in the UK, the "Jaffray" action, in which certain Names claimed that Lloyd's, between the years 1978 and 1988, made fraudulent misrepresentations which induced those Names to become members of Lloyd's and continue underwriting. Judgement was given in favour of Lloyd's on 3 November 2000. The Names have sought permission to appeal and to amend their pleadings to include a claim under the Human Rights Act 1998. Lloyd's does not accept any liability in respect of this action.

**F** Thirteen Names have extant proceedings in New Brunswick, Canada for fraudulent misrepresentation. Lloyd's is seeking to have the actions permanently stayed on the grounds that the Canadian Courts lack jurisdiction over those claims. Lloyd's does not accept any liability in respect of these proceedings.

**G** In Australia eight Names have commenced proceedings alleging similar claims of fraud as in the "Jaffray" action and breach of Australian statutes. Lloyd's does not accept any liability in respect of these proceedings.

In respect of all contingent liabilities noted above in paragraphs (A) – (G), no provision is made in these financial statements.

## Five year summary

	1996 £000	1997 £000	1998 £000	1999 £000	2000 £000
<b>Consolidated revenue account</b>					
<b>Operating income</b>	156,855	186,855	178,112	164,406	<b>146,240</b>
Operating expenses:					
Employment	(85,948)	(73,591)	(74,544)	(70,316)	<b>(53,195)</b>
Premises	(29,853)	(31,433)	(29,166)	(24,551)	<b>(27,874)</b>
Overseas operating expenses	(17,170)	(19,325)	(18,029)	(17,401)	<b>(18,136)</b>
Other expenses	(78,089)	(46,677)	(61,057)	(60,975)	<b>(71,961)</b>
<b>Operating expenses</b>	<b>(211,060)</b>	<b>(171,026)</b>	<b>(182,796)</b>	<b>(173,243)</b>	<b>(171,166)</b>
<b>Operating (deficit)/surplus</b>	<b>(54,205)</b>	<b>15,829</b>	<b>(4,684)</b>	<b>(8,837)</b>	<b>(24,926)</b>
Profit on disposal of businesses	–	–	–	–	<b>319</b>
Net interest (expenditure)/income	1,280	(22,269)	(16,225)	(13,092)	<b>(7,064)</b>
VAT refund	2,115	–	–	–	–
Market settlement net	(430,670)	41,243	53,994	97,607	<b>132,089</b>
Taxation credit/(charge)	(2,304)	(32)	(8,816)	1,191	<b>18,198</b>
<b>Surplus/(deficit) for the year</b>	<b>(483,784)</b>	<b>34,771</b>	<b>24,269</b>	<b>76,869</b>	<b>118,616</b>
	Number	Number	Number	Number	Number
Average numbers of employees during the year	2,076	1,880	1,833	1,645	<b>1,176</b>

## Lloyd's Central Fund

### Purpose of the Fund

The Lloyd's Central Fund continues to be held and administered by the Council of Lloyd's primarily as a fund available for the protection of policyholders, in accordance with the Byelaw of 14 July 1986 (the "Old" Central Fund) and the Byelaw of 5 June 1996 (the New Central Fund). These accounts reflect the separate activities of the New Central Fund and of the "Old" Central Fund.

The "Old" Central Fund will continue to receive recoveries of amounts contributed as part of the 1996 market settlement and meet any remaining liabilities arising from before the settlement date. The balance of the Fund will eventually be transferred into the New Central Fund.

The New Central Fund was established with a transfer of £110m from the "Old" Central Fund following authorisation by the Council on 4 June 1997. Members contribute to the Fund each year based on a percentage of their allocated overall premium limit. The rate for 2000 was 1% for all members (1999: 1%).

As part of Lloyd's solvency procedures, certain assets of the Fund may be used to cover underwriting deficiencies of members at the preceding 31 December to enable them to pass the solvency test and meet the requirements of the Financial Services Authority. Assets may be made available to discharge the underwriting liabilities of members in the event of default.

### Financial commentary

During 2000 the Lloyd's New Central Fund received contributions amounting to £101.2m and refunded £57.5m in respect of members' special contributions in accordance with Reconstruction & Renewal.

At 31 December 2000, the combined assets of the Lloyd's Central Fund amounted to £322.8m, an increase of £70m in the year.

The New Central Fund is supported by a five year insurance contract, which commenced in 1999, with six leading insurers whereby the insurers will meet unrecovered losses to the New Central Fund where it has been applied to meet members' cash calls, up to a ceiling of £350m per annum where such calls exceed £100m in any one year. The aggregate maximum payment over the lifetime of the policy is £500m. The Lloyd's New Central Fund paid premiums of £16.4m in 2000 (1999: £16.4m).

## Lloyd's Central Fund – Report of the auditors to the Council of Lloyd's

We have audited the accounts of the Lloyd's Central Fund on pages 64 to 70 which have been prepared under the historical cost convention as modified for the revaluation of investments and on the basis of the accounting policies set out on page 67.

### Respective responsibilities of the Council and auditors

The Council is responsible for the administration of the Fund and approval of the accounts prepared by Lloyd's in accordance with the principles outlined in the Corporation's accounts. 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 UK 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 or on behalf of the Council in the preparation of the accounts, and of whether the accounting policies are appropriate to the Fund'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 financial transactions of the Fund for the year ended 31 December 2000, and of the disposition at that date of its assets and liabilities.

### Ernst & Young

Registered Auditor  
London  
4 April 2001

# Lloyd's Central Fund balance sheet

at 31 December 2000

	Note	2000 £000	1999 £000
New Central Fund		294,070	231,556
"Old" Central Fund		28,773	21,284
<b>Total Fund balance</b>		<b>322,843</b>	252,840
<b>Represented by:</b>			
<b>Investments</b>			
Listed:			
United Kingdom		144,648	114,309
Overseas		141,447	95,987
Short-term deposits		24,768	55,649
	5	<b>310,863</b>	265,945
<b>Current assets</b>			
Debtors	6	13,000	4,471
Taxation	7	9,499	8,900
Cash		58	16
		<b>22,557</b>	13,387
<b>Total assets</b>		<b>333,420</b>	279,332
<b>Current liabilities</b>			
Creditors	8	(6,411)	(19,687)
<b>Total assets less current liabilities</b>		<b>327,009</b>	259,645
<b>Deferred taxation</b>	7	(4,166)	(6,805)
<b>Net assets</b>		<b>322,843</b>	252,840

Signed on behalf of the Council of Lloyd's on 4 April 2001

**S Riley** *Chairman*

**NET Prettejohn** *Chief Executive Officer*

# Lloyd's Central Fund general fund account

for the year ended 31 December 2000

	Note	New Central Fund 2000 £000	"Old" Central Fund 2000 £000	Total 2000 £000	Total 1999 £000
<b>Income</b>					
Contribution from members of Lloyd's		101,152	–	101,152	99,100
Profit from sale of investments	5	5,380	–	5,380	5,973
Dividends and interest		15,769	2,348	18,117	16,883
Recoveries		–	11,620	11,620	8,438
Gain on exchange		1,220	1	1,221	107
		123,521	13,969	137,490	130,501
<b>Expenditure</b>					
Refunds of members' special contributions		(57,523)	–	(57,523)	(64,351)
Income Support Schemes		–	(2,043)	(2,043)	(2,119)
Other claims and provisions		(2,794)	–	(2,794)	(2,111)
Insurance premiums and brokerage fees		(16,755)	–	(16,755)	(17,164)
Administrative expenses		(385)	(389)	(774)	(665)
		(77,457)	(2,432)	(79,889)	(86,410)
<b>Surplus before taxation</b>		46,064	11,537	57,601	44,091
<b>Taxation credit/(charge)</b>	7	17,760	(4,282)	13,478	(43)
<b>Net surplus for the year</b>		63,824	7,255	71,079	44,048
<b>Increase/(decrease) in valuation of investments during the year</b>					
Unrealised exchange gain	5	5,667	–	5,667	2,758
Unrealised (decrease)/increase in market valuation of investments	5	(9,617)	234	(9,383)	(3,574)
Decrease/(increase) in provision for deferred taxation	7	2,639	–	2,639	(2,602)
		(1,311)	234	(1,077)	(3,418)
<b>Increase in general fund for the year</b>		62,513	7,489	70,002	40,630

There are no recognised gains or losses in the year other than those dealt with in the general fund account.

## Lloyd's Central Fund cash flow statement

for the year ended 31 December 2000

	<i>Note</i>	2000 £000	1999 £000
<b>Cash inflow from operating activities</b>	9	<b>42,232</b>	36,363
Taxation paid		<b>(157)</b>	(1,757)
<b>Cash inflow before use of liquid resources and financing</b>		<b>42,075</b>	34,606
Management of liquid resources	10	<b>(41,841)</b>	(44,143)
<b>Increase/(decrease) in cash in the period</b>		<b>234</b>	(9,537)
<b>Reconciliation of net cashflow to movement in net funds (note 11)</b>			
Increase/(decrease) in cash in the period		<b>234</b>	(9,537)
Cash inflow from movement in liquid resources		<b>41,841</b>	44,143
<b>Change in net funds resulting from cash flows</b>		<b>42,075</b>	34,606
Profit from sale of investments	5	<b>5,380</b>	5,973
Gain on exchange		<b>1,221</b>	107
Movement in valuation of investments	5	<b>(3,716)</b>	(816)
<b>Movement in net funds in the period</b>		<b>44,960</b>	39,870
<b>Net funds at 1 January</b>		<b>265,961</b>	226,091
<b>Net funds at 31 December</b>	11	<b>310,921</b>	265,961

# Lloyd's Central Fund notes to the financial statements

at 31 December 2000

## 1 Purpose of financial statements

### *Basis of preparation*

The financial statements are prepared under the historical cost convention modified for the revaluation of investments.

These financial statements summarise the income, expenditure, assets and liabilities of the Fund at 31 December 2000. They do not take account of payments made after the balance sheet date or future payments that may be made to cover underwriting losses of individual Names except to the extent that the Central Fund is contractually committed to make such payments under hardship and other agreements. No value has been assumed for the assets pledged by hardship Names under the terms of their hardship agreements.

For the year ended 31 December 2000, the Central Fund has adopted FRS16 "Current taxation". There has been no material impact on the financial statements as a result of adopting this standard.

## 2 Principal accounting policies

### *A Investments*

Investments are shown at market value at the balance sheet date and the profits and losses arising on revaluation are included in the general fund account.

### *B Dividends and interest*

Dividends from equity investments are taken into account on the ex-dividend date of payment. Interest income is created by reference to the amounts earned during the year.

### *C Claims and recoveries*

Claims are charged to the general fund account when approved. Recoveries are credited to the general fund account when received.

### *D Foreign currency*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the general fund account.

### *E Taxation*

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that a liability will crystallise.

## 3 Solvency shortfalls

As part of Lloyd's solvency procedures, wherever there is a shortfall in comparing a Member's Lloyd's assets with liabilities at the preceding year end, sufficient central and other assets are identified to enable the Member to pass the solvency test and meet the requirements of the Financial Services Authority. As at 31 December 2000, solvency shortfalls relating to the 1999 solvency test amounted to £11.5m (as at 31 December 1999 relating to the 1998 solvency test: £7.4m). The results of the 2000 solvency test will not be determined until August 2001.

On 26 February 2001, the Council provided undertakings to certain insolvent members that the New Central Fund will discharge the liability of those members reflected in any unpaid cash calls in order that valid claims made on policies underwritten by them can continue to be paid in full as and when the claims fall due. No amounts have been provided in these financial statements for any payments that may be made under these undertakings.

# Lloyd's Central Fund notes to the financial statements *continued*

at 31 December 2000

## 4 Contingent liabilities

The Society of Lloyd's has taken on the responsibilities of some individual Names under hardship and other agreements. The Society has also given indemnity bonds to Lioncover Insurance Company Limited (Lioncover) and Centrewrite Limited (Centrewrite) respectively against any shortfall in their assets. The Council has determined that any losses resulting from such indemnities will be met by the Central Fund.

In order to quantify the potential liability of the "Old" Central Fund in respect of hardship Names, quotations have been obtained from Centrewrite for Exeat policies to cover all of those Names with hardship agreements and who continue to have open underwriting years of account.

Following the implementation of Reconstruction & Renewal, Names underwriting in respect of 1992 and prior years, Lioncover and Centrewrite have been reinsured into Equitas. If Equitas were unable to discharge in full the liabilities which it has reinsured any resulting shortfall in respect of Lioncover or Centrewrite could be met out of both the "Old" Central Fund and the New Central Fund under the terms of their respective Lloyd's bonds. Both the "Old" Central Fund and the New Central Fund would also be available to meet the claims of policyholders of Names who are party to hardship agreements executed before 4 September 1996, to the extent that such an event resulted in a shortfall. However, unless the members of the Society resolve in a general meeting to make the New Central Fund available, only the "Old" Central Fund would be available to meet the claims of policyholders of Names who are not party to hardship agreements executed before 4 September 1996.

## 5 Investments

	2000 £000	1999 £000
Movement in the year:		
Market value at beginning of year	265,945	216,482
Additions at cost	200,004	91,000
(Decrease)/increase in short-term deposits	(30,880)	6,441
Proceeds from disposals	(125,870)	(53,135)
Profit on disposals	5,380	5,973
Increase/(decrease) in valuation of investments during the year:		
Unrealised exchange gain	5,667	2,758
Unrealised decrease in market valuation	(9,383)	(3,574)
<b>Market value at end of year</b>	<b>310,863</b>	<b>265,945</b>
Analysis of securities at year end:		
Listed on London Stock Exchange:		
Fixed interest	61,322	62,982
Equities	83,326	51,327
	<b>144,648</b>	<b>114,309</b>
Listed on Overseas stock exchanges:		
Fixed interest	73,927	47,428
Equities	67,520	48,559
	<b>141,447</b>	<b>95,987</b>
Short-term deposits	24,768	55,649
	<b>310,863</b>	<b>265,945</b>

Basis of valuation: all securities are valued at their quoted market price at the balance sheet date.

<b>6 Debtors</b>	2000 £000	1999 £000
Interest and dividends receivable	<b>3,258</b>	2,907
Other debtors and prepayments	<b>9,742</b>	1,564
	<b>13,000</b>	4,471

Included within other debtors and prepayments are prepaid insurance premiums of £9.3m (1999: £1.5m).

<b>7 Taxation</b>	New Central Fund 2000 £000	"Old" Central Fund 2000 £000	Total 2000 £000	Total 1999 £000
UK corporation tax based on profits for the year at 30% (1999: 30.25%)	<b>(971)</b>	–	<b>(971)</b>	–
Prior year adjustments				
– tax credits arising from release of prior year provisions	<b>18,731</b>	–	<b>18,731</b>	–
– write off of prior year tax debtors	–	<b>(4,282)</b>	<b>(4,282)</b>	–
Income tax–attributable to franked investment income	–	–	–	(43)
	<b>17,760</b>	<b>(4,282)</b>	<b>13,478</b>	(43)

Following the agreement of certain prior year tax computations, sufficient tax losses have been made available to cover some prior year taxable profits. This has resulted in a release of prior year provisions amounting to £18.7m which has been credited to the general fund account in the year. Certain prior year computations remain open. £4.3m of an income tax debtor in respect of these computations has been written off as it is not expected with reasonable certainty that it will be recovered.

Analysis of taxation debtor:

Income tax recoverable	<b>3,551</b>	<b>3,198</b>	<b>6,749</b>	8,900
Group tax relief receivable	–	<b>2,750</b>	<b>2,750</b>	–
	<b>3,551</b>	<b>5,948</b>	<b>9,499</b>	8,900

The amount of £9.5m is due to be recovered in the following accounting period.

Deferred taxation

At 1 January	<b>(6,805)</b>	–	<b>(6,805)</b>	(4,203)
Credit/(charge) for the year	<b>2,639</b>	–	<b>2,639</b>	(2,602)
At 31 December	<b>(4,166)</b>	–	<b>(4,166)</b>	(6,805)

The provision for deferred taxation at 31 December 2000 is in respect of net unrealised investment appreciation.

<b>8 Creditors</b>	2000 £000	1999 £000
Hardship Names ( <i>note 4</i> )	<b>(2,971)</b>	(3,157)
Corporation tax	<b>(813)</b>	(13,849)
Other creditors and accruals	<b>(602)</b>	(562)
Income Support Schemes	<b>(2,025)</b>	(2,119)
	<b>(6,411)</b>	(19,687)

Under the terms of the Income Support Scheme and the Hardship Income Top-Up Scheme, the Central Fund has a commitment in respect of Support Scheme payments approved by Council for 2001.

**Lloyd's Central Fund notes to the financial statements** *continued*

at 31 December 2000

<b>9 Reconciliation of operating surplus to operating cash flows</b>	2000 £000	1999 £000
Surplus before taxation	57,601	44,091
Profit on sale of investments	(5,380)	(5,973)
Gain on exchange	(1,221)	(107)
Increase in accrued income	(351)	(401)
Increase in other debtors	(8,178)	(1,450)
(Decrease)/increase in creditors	(239)	203
<b>Net cash inflow from operating activities</b>	<b>42,232</b>	<b>36,363</b>

<b>10 Analysis of cash flows for headings netted in the cash flow statement</b>	2000 £000	1999 £000
Management of liquid resources:		
Purchase of government securities	(107,715)	(47,928)
Purchase of equities	(61,407)	(49,351)
Sale of government securities	126,125	49,383
Sale of equities	1,156	3,753
<b>Net cash outflow from management of liquid resources</b>	<b>(41,841)</b>	<b>(44,143)</b>

<b>11 Analysis of net funds</b>	At 1.1.00 £000	Cash flow £000	Other movements £000	At 31.12.00 £000
Cash at bank	16	234	(192)	58
Current investments	265,945	41,841	3,077	310,863
	<b>265,961</b>	<b>42,075</b>	<b>2,885</b>	<b>310,921</b>

**12 Tutelle Limited**

In 1996, the Council set aside, under a Lloyd's special account, £20m of the "Old" Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the Reconstruction & Renewal plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Market Board, Lloyd's Regulatory Board and Corporation staff.

Unless and until there is any default under the security documentation, interest earned on the trust fund is paid to the "Old" Central Fund.

The security was deposited for an initial period of two years and the Council exercised its discretion to renew this in June 1998. The Council further amended the period of the deposit, in November 1998, so that the security could only be released if the Council was satisfied that there was no reasonable prospect of a claim being made under these indemnities.

Tutelle's position is under biennial review and, having been reviewed in June 2000, will be reviewed again in June 2002. The security may continue for a period of up to 80 years. Any of the funds remaining after this period will be repaid to the Central Fund.

**13 Lioncover Insurance Company Limited**

In 1999, Lloyd's assigned to Lioncover £1m of the "Old" Central Fund by way of security for a period of 10 years for its obligations to Lioncover under the indemnity bond referred to in *note 4*. The security was provided as consideration to those individual Names whose underwriting liabilities are reinsured by Lioncover for the release of Lloyd's syndicate 9001, for which Lioncover was substituted as direct reinsurer to close of those Names. Any of the funds remaining after this period will be repaid to the Central Fund.

Unless and until there is any default under the security documentation, interest earned on the security is paid to the "Old" Central Fund.

## Lloyd's Members' Ombudsman's report

### Report by Sir Brian Hayes GCB Lloyd's Members' Ombudsman

I am pleased to present the annual report of the Lloyd's Members' Ombudsman to the Council of Lloyd's for the year ended 31 December 2000.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members of the Society, or resigned members with open years of account, who believe that they have suffered injustice in consequence of maladministration in relation to action taken by or on behalf of the Society. The Ombudsman's powers do not extend to complaints that Names may have against underwriting agents.

During the year I received 12 complaints; eight fewer than the previous year. In six cases I decided in the exercise of my discretion and after making preliminary enquiries to take no further action, as I was satisfied that considerations of maladministration did not arise. In each case I explained to the complainant why this was so, with a detailed letter of response.

Four cases were resolved by action taken by the Corporation departments concerned so that further action by me was not required. Where complaints are referred to the Corporation departments, this is on the basis that if they are not resolved to the satisfaction of the Complainant, then I will be prepared to consider, and if appropriate conduct, an investigation into the matter.

At the time of writing, one case has not been concluded. One case fell outside my jurisdiction.

The expenses incurred by my office amounted to £33,344, a reduction in overall costs of £31,303 compared to 1999. This has been achieved by merging the administration of the office of the Lloyd's Members' Ombudsman into the Complaints Department.





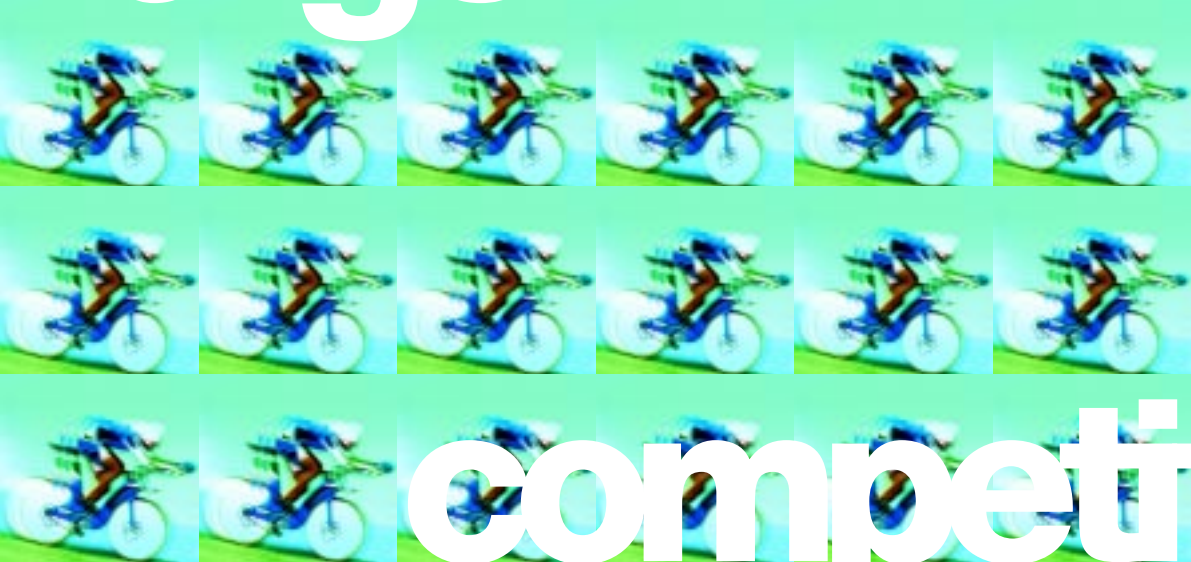
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**flexible**



Backed by assets of more than £18bn, the Lloyd's market is a major force in global insurance. 68% of FTSE 100 companies and 83% of the Dow Jones Industrial Average buy insurance at Lloyd's.

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**LLOYD'S**

One Lime Street  
London EC3M 7HA  
Tel: +44 (0)20 7327 1000  
[www.lloydsfondon.com](http://www.lloydsfondon.com)