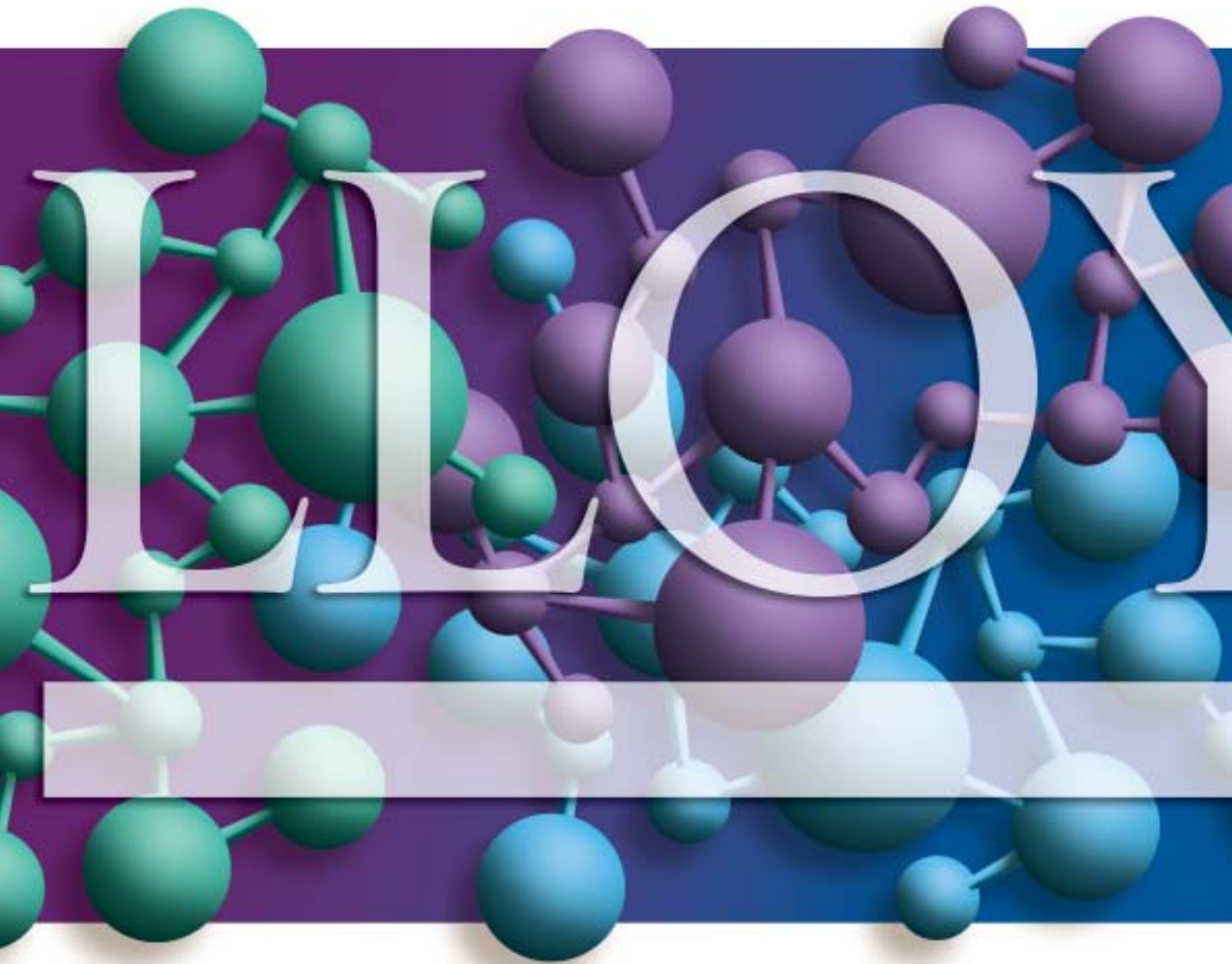


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global results 2001



2001 annual report

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Chief Executive Officer's report



Nick Prettejohn Chief Executive Officer

2001 saw a year that was more than usually challenging for the management and staff of the Corporation of Lloyd's. September 11 dominated the last quarter of the year, but the eight months prior had presented a whole range of issues which teams from both individual departments, and across functions, had to manage.

Over the last several years a major strategic imperative of the Corporation has been to refine the activities in which it is involved. This has involved a range of initiatives, some have covered outsourcing, partnering, and the application of the latest technology, while others have been more focused on opening up Lloyd's to new customers, and increasing awareness of Lloyd's in new markets.

The final elements of the Corporation's change programme were successfully implemented during the year with the transfer of the Lloyd's Policy Signing Office (LPSO) into Xchanging Ins-sure, a partnership consisting of Xchanging, Lloyd's and the International Underwriting Association. In November Lloyd's and Xchanging completed the formation of a new, jointly owned company to commercialise the Lloyd's Claims Office.

The Corporation is also committed to a number of other initiatives to help drive forward a process of modernisation and efficiency in the Lloyd's market. For example, in our Canadian office, Lloyd's and a new outsourced service partner are introducing a range of measures to utilise web-based technology to improve operations, reduce costs and enhance service. It is hoped that this may have applications in other territories.

Web technology is also being deployed to create a more transparent Lloyd's market. lloyds.com was launched in late spring 2001 as an on-line directory service that gives access to the wealth of underwriting expertise that is available in the Lloyd's market. After ten months 4,500 intermediaries from over 200 different countries had registered on the site and are using it to build new relationships with underwriters and brokers.

Building from this base lloyds.com undertook a strategic review of how Lloyd's could move forward in e-commerce. The result is a proposal to create a significant new insurance industry-wide initiative that is aimed at improving dramatically the speed and accuracy with which insurance-related information flows around the world. There would be clear benefits to all participants in the commercial insurance industry so Lloyd's is working to put together a coalition to take this initiative forward.

The strategy of widening access to Lloyd's was also implemented through the broker accreditation programme that was launched in 2001. Run by Worldwide Markets this initiative has seen some 21 new broking houses accredited, from the UK, USA, France, Singapore and Canada.

In addition, considerable activity has taken place to develop our licence network and enable underwriters to compete with other global insurers. A general representative was appointed in Spain, and a new representative office was opened in Beijing, thereby building stronger relationships in China. A comprehensive marketing programme intended to promote the Lloyd's brand was also carried out around the world. With audiences segmented by their levels of familiarity with Lloyd's, messages were tailored to convey the key benefits of dealing with a marketplace, and a full range of activity covering advertising, direct mail, conferences, and media relations was undertaken.

The consequences of September 11 dominated our activity in the last quarter of the year. Virtually every area of the Corporation was involved in pulling together both our short and medium term response to this unprecedented loss, and I would like to express my very sincere thanks to all the staff of the Corporation for their commitment and hard work over this period.

The Commercial Directorate has devoted considerable resources to managing both the information flow to, and expectations of, ratings agencies, Central Fund insurers, investment analysts and key brokers.

Both Standard & Poor's and AM Best downgraded the financial strength ratings of Lloyd's to A (Strong) and A- (Excellent), respectively, following the tragedy of September 11.

Central Fund insurers have been provided with information on their exposures on a regular basis and face-to-face meetings have also been undertaken with them in light of the likelihood of a claim on the policy during the remaining two years of cover.

The influence of external commentators has grown in importance and there is a significantly increased need for the market to maintain a regular dialogue with key brokers and investment analysts around the world. An ongoing programme of activity has been scoped to meet their needs for timely and accurate information on Lloyd's.

In 2001 the United States became Lloyd's largest market, and our substantial involvement in the September 11 loss has meant that we have invested considerable resources in maintaining an open dialogue with the New York Insurance Department, other key State regulators and the National Association of Insurance Commissioners.

The Finance Directorate was also heavily involved in monitoring and understanding the solvency and liquidity issues that arose. Through the Realistic Disaster Scenarios early estimates as to the impact on the market were able to be made, and both the Finance and Regulatory teams expended considerable resources understanding the impact of the estimated losses at individual member level.

As well as the need to give comfort that Lloyd's had the financial resources to meet its obligations from September 11, we have also taken very seriously the need to co-ordinate the way in which the market responds to the resulting claims. To this end we have assembled a team, headed by Jeremy Pinchin, whose role will be to put into place the measures that will help to ensure that payment of valid claims is made as efficiently and effectively as possible.

September 11 triggered the most intense and sustained period of media interest in Lloyd's since the mid-1990s. At its peak the media relations team were dealing with several hundred calls a day, from journalists all over the world. This reflects not only the extent of Lloyd's involvement, but also our position as a "weathervane" for the insurance industry as a whole.

Protection of the Lloyd's brand and reputation has also meant increased activity by the Regulatory Division. The Division has throughout the year been addressing market difficulties associated with the significant losses from the past three years. In particular, there has been active monitoring of the solvency problems of certain corporate members with the aim of minimising any impact on the Central Fund.

The Division, together with the legal team, became involved in the investigation and resolution of two serious market disputes involving the sale of insurance purported to be placed at Lloyd's. One was resolved satisfactorily. The second arose following the liquidation of one of the travel insurance intermediaries concerned. In this case Lloyd's stepped in to pay all valid claims pending the resolution of the dispute as to liability. Lloyd's received praise from the industry for the speed and efficiency of its handling of these incidents.

A small number of dissident Names have, over the years, deployed a number of different legal devices to frustrate our legitimate right to collect debts due to us. Last year I reported that the Society had been successful in defending the fraud action brought against it by over 200 members of Lloyd's. During 2001 the Names were granted the right to appeal

against this decision, and at the time of writing, the Names' appeal against this decision is being heard in the Court of Appeal. We are confident that the Court's original decision will stand.

In early 2001 non-paying US Names sought protection from debt enforcement through an unrelated piece of US legislation. An extensive lobbying effort by the Corporation in Washington led to this being thrown out. I am also delighted to note that in November, the United States Attorney's Office for the southern district of New York announced that it had closed its investigation of Lloyd's, terminating all proceedings without any charges having been brought. We had always co-operated fully with the USAO and are delighted by this outcome.

Each effort by dissident Names to evade their legal obligations is, one by one, being rejected by legal systems around the world. I very much hope that 2002 will bring to a close a troubled and now distant chapter of Lloyd's history.

Finally, two highly valued directors moved from the Corporation in the last 12 months – Michael Taylor to become Deputy Chairman of Ins-sure and David Gittings, to become Director of Insurance at the FSA. I would like to thank them both for their contribution to the Society and wish them well in their new and important roles, and look forward to continuing to work with them both in the future.

Every year brings new challenges for the Corporation. The work being done to create a more formal "franchise" structure for the market will mean that the only constant next year will be that there is more change. The outcome of the Chairman's Strategy Group will undoubtedly have significant implications for both the structure and activities undertaken by the Corporation. The Corporation team is relishing these new challenges, and committed to playing its part in taking the Lloyd's market forward.

Nick Prettejohn

Chief Executive Officer

10 April 2002

Operating and financial review

Regulatory

The Financial Services Authority (FSA) assumed its full regulatory responsibilities for the oversight of Lloyd's from 'N2', 30 November 2001. Significant effort has been devoted to ensuring Lloyd's compliance with FSA requirements prior to N2 and to establishing the practicalities of the ongoing relationship. A dedicated Lloyd's compliance team has been established.

Following David Gittings' departure to take up the position of Director of Insurance at the FSA in April 2002, the activities of the division will be refocused pending the implementation of the proposals of the Chairman's Strategy Group for a franchise board, and the FSA's own plans to review the regulation of general insurance.

Members' services

Members' Services Unit (MSU) successfully delivered a range of services to over 15,000 members and their agents throughout 2001. Key deadlines were met despite the need to adapt at short notice to events such as September 11. In addition to consistently achieving quality standards, MSU prices have again been reduced to increase value for money to members.

To ensure continued improvements in value for money, MSU has embarked on a three-year change programme. During 2001 there was a strong focus on developing skills and capabilities and streamlining infrastructure. A headcount reduction of over 10% was achieved. The key focus of change in 2002 is the reduction of external costs.

Information technology

The Information Technology Group focused on both the provision of internal services, and also on managing market wide external relationships in 2001.

The former involved the establishment of an outsourced secure hosting environment to support a material part of the technology infrastructure for Lloyd's and the widely acclaimed lloyds.com website. In addition, the technology infrastructure from the Lloyd's 1958 Building was re-located prior to the building being vacated at the end of 2001. At the same time a new telephony solution for Lloyd's and supported market customers, known as 'Voice over IP', was implemented which will deliver enhanced functionality to Corporation users and net savings of £4m over four years.

Externally the Group assisted with the smooth wind up of the WISE standards organisation, and establishment of a key strategic relationship with ACORD to represent the interests of the London market. The ACORD relationship will ensure that the London market is well positioned to adopt internationally compliant standards which deliver clear business benefits and meet the aspirations of the market reform programmes.

In addition, extensive IT support was provided for the divestment process for LPSO Limited (LPSO) and LCO Marine Limited and LCO Non-Marine Limited (LCO), ensuring the continued provision of technology services to Ins-sure and Xchanging Claims Services (XCS), supported by clear and effective operational controls.

A review of all Lloyd's IT systems and outsourced relationships has commenced which is expected to deliver material savings in 2002/3.

Property services

The sale of the Lloyd's 1958 Building was completed in February 2001 with the leaseback and occupation by the Corporation agreed until 31 December 2001. Property Services focused on the relocation of the Corporation departments to the 1986 Building and Gun Wharf, Chatham by this date. The programme involved restacking a number of galleries in the Lloyd's 1986 Building and included providing new offices for XCS. In all 100,000 sq ft of space was fitted out and occupied by 1,000 tenants and members of staff.

As part of the changes to the buildings a new catering facility and coffee shop, "the 1688", was created for use by the market, Corporation and visitors. It is now used by more people than previous outlets and occupancy and direct cost savings of £1.1m per annum are anticipated.

Negotiations were satisfactorily concluded with the landlord of the 1986 Building to determine the rent which would apply from March 2001.

Financial review

The Corporation's overall surplus for the year after tax is £58.7m. Taken together with an unrealised gain of £4.8m arising from the disposal of LPSO and LCO, the Corporation's net assets increased from £19.1m at the end of 2000 to £82.6m as at 31 December 2001.

LPSO and LCO were transferred in 2001 to new ventures in which the Corporation retains an interest, Ins-sure Holdings Limited (25%) and Xchanging Claims Services Limited (50%). As a result, operating income and expenses in the consolidated revenue account have been analysed between continuing and discontinued operations. Discontinued operations represent the results of LPSO and the LCO companies up to the dates of when they ceased to be wholly-owned subsidiaries (30 April 2001 and 31 October 2001 respectively). Prior year results for 2000 have been restated on the same basis.

The Corporation has accounted for its interests in Ins-sure Holdings Limited and Xchanging Claims Services Limited as associates and has disclosed its proportional share of operating losses of £0.3m, including restructuring costs, in 2001 in the consolidated revenue account.

The Corporation operating deficit for the year of £34.2m includes a contribution of £2.2m from discontinued operations. The operating deficit of £36.4m on continuing operations includes a number of significant items:

- The costs of co-operating with the US Attorney's Office for the Southern District of New York investigation into Lloyd's were substantial. In November 2001 Lloyd's was informed that the investigation was closed and all proceedings had been terminated without charges having been brought.
- The liquidation of a travel insurance intermediary, the Management Company (London) Limited, created serious concerns that the Management Company had issued thousands of travel insurance documents bearing Lloyd's name without authority. In order to protect the Society's reputation, and members of the public who bought policies, Lloyd's announced in July 2001 that it would meet all valid policyholders' claims. A charge of £4.9m has been recognised in 2001 after taking account of contributions of £2.6m from third parties.
- The leaseback rental of £4m, for 2001 only, in respect of the Lloyd's 1958 Building which was sold in February 2001, together with consequential costs of vacating the premises and moving staff into the Lloyd's 1986 Building.
- Increased annual rental of £5.2m on the Lloyd's 1986 Building effective from March 2001.
- The development and running of the lloyds.com website amounting to £6.5m. This includes providing the Market Finder service for insurance and reinsurance professionals designed to help find and contact specialist carriers, brokers and a web-based Market Intelligence magazine.

Members' subscriptions, which are based on premium limits, were held at 0.25% in 2001 having been reduced to 0.25% in 2000 from 0.35% in 1999.

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. The syndicated bank loan, which had been reduced to £78m by the end of 2000, was repaid in September 2001. In February 2001, the Lloyd's 1958 Building was sold at a profit of £25.1m and the mortgage loan repaid using part of the sale proceeds of £49.4m. The sale agreement provides for Lloyd's to benefit from any enhanced value as a result of the site being redeveloped.

During 2001, the Council of Lloyd's decided to continue to collect the 1.1% premium levy after the syndicated bank loan had been repaid until the end of 2001. However, post-September 11, in order to boost the central assets of the Society, the Council decided to continue the premium levy in 2002 and 2003 at an increased rate of 2% for most classes of business, except for life and UK motor business which was reduced to 1%.

Premium levy charges received, after the loan had been repaid, formed part of the transfer of £80m to the Central Fund in the last quarter of 2001.

Debt recoveries in 2001 were £18m and included recoveries from liquidated agents, acceptors of the settlement offer made to Names with outstanding liabilities who did not accept *Reconstruction & Renewal* and debt recovery activity. Lloyd's remains determined to secure the maximum amount available from those Names with outstanding liabilities, and who have the ability to pay.

Treasury policies

The Corporation's objectives and policies for holding financial instruments and similar contracts, and the strategies for achieving those objectives, are described below.

Interest rate risk

With the exception of funding requirements in respect of statutory insurance deposits, the Corporation had no other significant borrowings at 31 December 2001 following the repayment of the syndicated bank loan and the redemption of the mortgage. Short-term assets held by the Corporation, and related companies, may be significant at certain times but such balances cannot be accurately predicted. These are invested in money-market instruments of up to 12 months in duration with the objective of maximising current income whilst meeting liquidity requirements.

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, negotiated with leading international banks, were also available to the Corporation as at 31 December 2001. There are no plans to utilise these facilities, which are available to meet unforeseen short-term requirements and are renewed annually.

Foreign currency risk

The Corporation enters into a variety of foreign exchange transactions in response to foreign currency requirements of Lloyd's group companies, as well as facilitating certain transactions in connection with the requirements of the Lloyd's market. In managing the exposures arising from such foreign exchange activity, which may involve transactions for forward settlement, the net risk arising from all such exposures is considered and the level of this risk is managed within closely defined parameters. Consequently, whilst some net foreign exchange exposures may accrue to the Corporation, from time to time, as a result of this activity, the level of such exposures is carefully monitored and is not significant in the context of its combined activities.

Operating and financial review *continued*

Separately, the Corporation provides a Currency Conversion Service (CCS) to participating Lloyd's syndicates, converting insurance premiums and claims between sterling and other Lloyd's settlement currencies as required. Foreign exchange exposures arising from the provision of the CCS are again managed on a net basis, within defined parameters. The CCS is operated separately from other foreign exchange activity of the Corporation because, under the terms of the Service, any profit (or loss) arising from CCS exposures is distributed to (or collected from) syndicates participating in the CCS. Currency exposures arising from CCS activity consequently do not, ultimately, represent risks to the Corporation.

Credit risk

A list of permissible bank counterparties, for the purposes of money-market investment, is maintained, and restricted to banks having strong balance sheets and credit ratings. Investment parameters exist for all investment assets, ensuring high credit quality and appropriate risk diversification. Permitted counterparties to capital market transactions are also carefully controlled. All applicable parameters are reviewed regularly by the Lloyd's Investment Committee.

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 executive team 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.

Going concern

As part of its normal business practice the Council of Lloyd's has considered whether it is appropriate to prepare the Corporation's financial statements on a going concern basis. The Corporation prepares annual and longer term plans and in reviewing this information the Council of Lloyd's sees no reason why the Corporation should not remain as a going concern for the foreseeable future. Therefore the Corporation continues to adopt the going concern basis in preparing the financial statements.

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. Currently these include: CEO briefings for all employees at open forums; regular team meetings to keep employees informed and to provide feedback to management; and a Corporation Intranet (C-net) which provides information rapidly to all employees.

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.

Values and capabilities

A set of Lloyd's values and capabilities was introduced in 2001 aimed at promoting a more commercially orientated culture and improvements in performance across the Corporation. A new flexible benefits employment offering was implemented, designed to attract and retain high calibre individuals. Succession plans have been drawn up for all critical positions. There has been a significant reduction in staff turnover.

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 five most senior executives in the Corporation.

This report is based upon best practice as set out in the Combined Code in respect of remuneration disclosures. This code 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 52. Paul Swain served on the Committee during 2001.

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 plan 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 2001.

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, Saxon Riley, is appointed on a part-time basis and provides his services for 3 days per week, on average. His fees, which are non-pensionable, were £200,000 per annum, during 2001, and the cost of his benefits was £41,000. He was awarded a bonus of £100,000 for his performance during 2001.

The salary of the Chief Executive Officer, Nick Prettejohn, was £360,000 per annum in 2001, (£300,000 per annum in 2000) with a 38% actual and notional contribution to his pension and the value of his other benefits (car and medical insurance) was £10,700. He was awarded a bonus of £150,000 for his performance during 2001.

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 2001, these being unchanged from previous years. The fees for the other Deputy Chairmen of Council were £25,000 per annum.

Fees for sitting on Council, LMB, LRB and Committees were unchanged from those paid in 2000. The fees for members of Council are £20,000 per annum. Council members who also sat on LMB or LRB received an additional £5,000 per annum. Members of the Executive Committee of LRB received £5,000 per annum. A further £2,500 per annum was paid to those attending Council or other LRB Committees, while the chairmen of these Committees received £5,000 per annum. Special ex-gratia payments of £4,000 were paid to two Council members, Judith Hanratty and Peter Morgan, in respect of their membership of the Chairman's Strategy Group, while £22,400 was paid to Judith Hanratty in respect of her membership of the Names Panel.

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 are elected by the Council on an annual basis.

The current Chairman of Lloyd's works part-time for the Society and his contract was renewed effective 1 January 2002 for up to a year. 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

Members of the Council of Lloyd's and Lloyd's Market & Regulatory Boards 2002

Council of Lloyd's

Working members

Saxon Riley	<i>(Chairman of Lloyd's)</i>
† John Coldman	<i>(Deputy Chairman of Lloyd's)</i>
† Broniek Masojada	<i>(Deputy Chairman of Lloyd's)</i>
† Stephen Catlin	
Graham McKean	
David Robson	

External members

Wellington (Five) Limited	<i>(represented by Julian Avery)</i>
Paul Kelly	
ACE Capital Limited	<i>(represented by Bill Loschert *†)</i>
*† Peter Morgan	
Amlin Corporate Member Limited	<i>(represented by Charles Philipps)</i>
Camperdown UK Limited	<i>(represented by Michael Schell)</i>

Nominated members

*† Judith Hanratty	
* Bill Knight	
* Brian Pomeroy	
Nick Prettejohn	<i>(Chief Executive Officer)</i>
† Alastair Ross Goobey	
† John Young	

Lloyd's Market Board

Nick Prettejohn	<i>(Chairman of Lloyd's Market Board)</i>
Gilles Bonvarlet	
Brian Carpenter	
Simon Clapham	
Christine Dandridge	
Michael Dawson	
David Foreman	
David Gittings – Resigned March 2002	
Nigel Hanbury	
Judith Hanratty	
Julian James	
Graham McKean	
Peter Morgan	
Andrew Moss	
Charles Philipps	
Gary Schmalzriedt	
Roger Sellek	

Lloyd's Regulatory Board

John Young	<i>(Deputy Chairman of the Council of Lloyd's, Chairman of the Lloyd's Regulatory Board)</i>
Brian Pomeroy	<i>(Deputy Chairman of Lloyd's Regulatory Board)</i>
Rupert Atkin	
John Barber	
Lady Delves Broughton	
David Gittings – Resigned March 2002	
Anthony Howland Jackson	
Paul Kelly	
Bill Knight	
Bill Loschert	
Andrew Moss - Appointed April 2002	
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 financial statements

Byelaws made under Lloyd's Act 1982 require Lloyd's to prepare financial statements 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 financial statements are required to be approved by the Council of Lloyd's. The Council has determined that in preparing those financial statements 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 financial statements; and
- Prepare the financial statements 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.

Independent auditor's report to the members of Lloyd's

We have audited the financial statements for the year ended 31 December 2001 which comprise the consolidated revenue account, consolidated balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Lloyd's and auditors

As described in the Statement of Lloyd's Responsibilities, Lloyd's is responsible for the preparation of the financial statements which are approved by the Council of Lloyd's.

Our responsibility is to audit the financial statements in accordance with United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, Lloyd's has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial

statements. It also includes an assessment of the significant estimates and judgements made by Lloyd's in the preparation of the financial statements, 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 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 affairs of the Corporation as at 31 December 2001 and of its surplus for the year then ended.

Ernst & Young LLP

Registered Auditor
London
10 April 2002

Consolidated revenue account

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Operating income			
Continuing operations		124,918	110,761
Discontinued operations		18,251	35,479
Total operating income	3	143,169	146,240
Operating expenses			
Continuing operations		(161,279)	(135,385)
Discontinued operations		(16,065)	(35,781)
Total operating expenses	4	(177,344)	(171,166)
Operating (deficit)/surplus			
Continuing operations		(36,361)	(24,624)
Discontinued operations		2,186	(302)
Group operating deficit		(34,175)	(24,926)
Share of operating profits of associates	14	216	–
Share of exceptional items of associates	14	(495)	–
Amortisation of goodwill arising on acquisition of associate	14	(78)	–
Total operating deficit		(34,532)	(24,926)
Profit on sale of the Lloyd's 1958 Building – continuing operations	12	25,069	–
Profit on disposal of discontinued operations	25	–	319
Deficit on ordinary activities before interest		(9,463)	(24,607)
Interest and dividend income:			
Dividend from non-consolidated subsidiary	14	7,300	–
Interest income:	7		
Group		7,809	8,406
Associates		80	–
Interest payable:	7		
Group		(5,384)	(15,470)
		9,805	(7,064)
Premium levy income	8	119,855	97,891
Market settlement recoveries	8	17,996	34,385
Transfers to Lloyd's New Central Fund	9	(80,000)	–
Exchange gain/(loss) on syndicated bank loan	20	142	(187)
Surplus before taxation		58,335	100,418
Taxation credit	10	346	18,198
Surplus for the year		58,681	118,616

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Surplus/(deficit) for the year:			
Group		59,018	118,616
Associates		(337)	–
Total surplus for the financial year		58,681	118,616
Unrealised gain on disposal of subsidiaries	25	4,805	–
Total recognised gains and losses for the year	24	63,486	118,616

Consolidated balance sheet

as at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Tangible assets	11	14,655	41,225
Investments			
Investments in associates	14	3,991	–
Subsidiary companies not consolidated	14	121	116
		18,767	41,341
Statutory insurance deposits	15	57,757	55,836
Funding provided by syndicates and Equitas	15	(53,665)	(49,852)
		4,092	5,984
Total non-current assets		22,859	47,325
Current assets			
Stocks	16	454	749
Debtors and prepayments			
– amounts due: within one year	17	51,391	58,252
after more than one year – other debtors	17	2,500	–
after more than one year – pension scheme prepayment	18	24,592	24,592
Investments	19	31,089	42,734
Cash		31,226	43,527
Total current assets		141,252	169,854
Creditors – due within one year	20	(74,029)	(198,019)
Net current assets/(liabilities)		67,223	(28,165)
Total assets less current liabilities		90,082	19,160
Provisions for liabilities and charges	21	(7,436)	–
Net assets		82,646	19,160
Accumulated reserves	24	82,646	19,160

Signed on behalf of the Council of Lloyd's on 10 April 2002

S Riley *Chairman*

N E T Prettejohn *Chief Executive Officer*

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Cash flow from operating activities	22	27,445	113,260
Returns on investments and servicing of finance	22	7,604	(8,515)
Taxation		13,304	(1,319)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	22	(4,614)	(3,931)
Sale of tangible fixed assets	22	49,968	469
Acquisitions and disposals	22	(18,206)	2,557
Cash inflow before use of liquid resources and financing		75,501	102,521
Management of liquid resources	22	2,678	86,756
Financing	22	(97,627)	(173,095)
(Decrease)/increase in cash in the period		(19,448)	16,182
Reconciliation of net cash flow to movement in net funds <i>(note 22)</i>			
(Decrease)/increase in cash in the period		(19,448)	16,182
Cash outflow from decrease in financing		97,627	173,095
Cash inflow from decrease in liquid resources		(2,678)	(86,756)
Change in net funds resulting from cash flows		75,501	102,521
Other movements	22	1,013	594
Movement in net funds in the period		76,514	103,115
Net debt at 1 January		(10,107)	(113,222)
Net funds/(debt) at 31 December	22	66,407	(10,107)

Notes to the financial statements

as at 31 December 2001

1 Purpose of financial statements

Basis of preparation and consolidation

The Society of Lloyd's was incorporated under Lloyd's Act 1871 and is subject to the provisions of 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. However, the Central Fund financial statements describe how its assets may be used to cover members' solvency shortfalls. In the last resort, the Corporation's assets may also be used for this purpose at the discretion of Council.

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.

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 *note 23*.

FRS17 'Retirement benefits' comes fully into force for accounting periods ending on or after 22 June 2003. The Corporation has not adopted the standard early but has made the transitional disclosures required by the standard in *note 18*.

For the year ended 31 December 2001 the Corporation has adopted FRS18 'Accounting policies'. There has been no material impact on the financial statements as a result of adopting this standard.

The disclosures in relation to the acquisition of interests in associates have been made in accordance with FRS9 'Associates and joint ventures' and UITF31 'Exchange of business or other non-monetary assets for an interest in a subsidiary, joint venture or associate'.

From 30 November 2001, Lloyd's has been regulated by the Financial Services Authority (FSA).

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*

B *Investments*

Statutory insurance deposits comprise securities and cash deposits maintained in the United Kingdom 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 consolidated revenue account.

In the consolidated financial statements, shares in associates are accounted for using the equity method. The consolidated revenue account includes the group's share of the pre-tax profits and attributable taxation of the associates based on financial statements for the period. In the consolidated balance sheet, the investment in associates is shown as the group's share of the net assets of the associates and any associated goodwill.

C *Acquisitions and disposals*

On the acquisition of a business, including an interest in an associate, fair values are attributed to the group's share of the net separable assets acquired. Where the cost of the acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition and amortised over the estimated useful life.

D *Stocks*

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

E *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.

F *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.

G *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.

H *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 are retranslated at the rate of exchange ruling at the balance sheet date.

The Corporation and its consolidated subsidiaries enter into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market.

Where contracts are entered into to cover foreign exchange exposure, any variances between closing and contracted rates are included in the balance sheet.

Where contracts are entered into to provide a service to the Lloyd's market, these are marked-to-market at the year end closing rate. Where gains or losses are not expected to be refunded to or recovered from the Lloyd's market, these amounts are taken to the revenue account.

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:

	2001	2000
US\$	1.46	1.49
Can\$	2.32	2.24
Euro	1.63	1.59

3 Operating income

	2001 Continuing £000	2001 Discontinued £000	2001 Total £000	2000 Continuing £000	2000 Discontinued £000	2000 Total £000
Market charges						
Managing agents and syndicates	49,242	18,153	67,395	41,936	33,463	75,399
Members and members' agents	15,313	–	15,313	16,402	–	16,402
Regulatory levy	8,520	–	8,520	7,927	–	7,927
Lloyd's broker regulation and subscriber fees	–	–	–	2,083	–	2,083
	73,075	18,153	91,228	68,348	33,463	101,811
Members' subscriptions	27,687	–	27,687	25,167	–	25,167
Other income						
Equitas	595	–	595	750	632	1,382
Rent and building service charges	8,006	–	8,006	7,539	–	7,539
Charges to associates	7,333	–	7,333	–	–	–
Income from other services	8,222	98	8,320	8,957	1,384	10,341
	24,156	98	24,254	17,246	2,016	19,262
Total operating income	124,918	18,251	143,169	110,761	35,479	146,240

4 Operating expenses

	2001 Continuing £000	2001 Discontinued £000	2001 Total £000	2000 Continuing £000	2000 Discontinued £000	2000 Total £000
Operating expenses include:						
Employment costs (<i>note 5</i>)	36,530	8,263	44,793	34,640	18,555	53,195
Overseas operating expenses (<i>note 6</i>)	22,112	–	22,112	18,136	–	18,136
Professional fees, including legal fees and related costs	26,869	79	26,948	32,321	63	32,384
Operating lease rentals – land and buildings	19,475	–	19,475	11,600	–	11,600
Provision for travel insurance dispute (<i>note 21</i>)	4,901	–	4,901	–	–	–
Audit fee	63	42	105	121	21	142
Other audit services payable to Ernst & Young	187	–	187	243	–	243
Other fees payable to Ernst & Young	1,316	66	1,382	1,223	34	1,257
Depreciation (<i>note 11</i>)	4,297	169	4,466	6,800	542	7,342
Charitable donations	227	–	227	290	–	290

5 Employment

	2001 £000	2000 £000
Salaries and wages (including performance-related bonus)	31,866	38,848
Pension costs	330	590
Social security costs	3,208	3,911
Severance costs	2,362	2,808
Contract and agency staff	2,936	2,908
Other employment costs	4,091	4,130
	44,793	53,195

Notes to the financial statements *continued*

	2001 Number	2000 Number
Average numbers of employees during the year	825	1,176

The surplus on the pension scheme is being eliminated by a contribution holiday (see note 18).

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 page 51.

6 Overseas operating expenses

	2001 £000	2000 £000
Expenses in connection with underwriting activities in the following areas:		
USA	8,612	7,144
Canada	6,147	3,724
Asia	3,674	3,615
Europe	2,720	2,363
Africa, Australasia, Central and South America	959	1,290
	22,112	18,136
Made up of the following:		
Employment	4,855	6,607
Legal and professional	7,072	5,904
Systems and communication	5,580	1,061
Premises	1,713	1,553
Other expenses	2,892	3,011
	22,112	18,136

Local premium taxes amounting to £18.2m in 2001 (2000: £15.1m) 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.

7 Interest

	Syndicated bank loan £000	Other interest £000	Statutory insurance deposits £000	2001 Total £000	2000 Total £000
Group	–	4,495	3,314	7,809	8,406
Associates	–	80	–	80	–
Total interest receivable	–	4,575	3,314	7,889	8,406
Interest payable:					
Group Bank loans/overdrafts	(2,008)	(189)	–	(2,197)	(10,512)
Other loans	–	–	(3,505)	(3,505)	(5,704)
Foreign exchange movement					
– realised	–	–	318	318	668
– unrealised	–	–	–	–	78
	(2,008)	(189)	(3,187)	(5,384)	(15,470)

8 Premium levy income and market settlement recoveries

	2001 £000	2000 £000
Premium levy income:		
Receivable at 1 January	(8,809)	(6,768)
Collected and paid to banks (note 20)	80,238	97,161
Continued levy collections	40,621	–
Receivable at 31 December	9,297	8,809
Refundable in respect of return premiums at 31 December	(1,492)	(1,311)
	119,855	97,891

The syndicated bank loan was repayable out of a premium levy of 1.1% on premiums written in the Lloyd's market. The Council of Lloyd's agreed to continue to collect the premium levy after the syndicated bank loan was fully repaid in September 2001. Continued levy collections are included as part of the transfers to Lloyd's New Central Fund (see note 9).

	2001 £000	2000 £000
Market settlement recoveries	17,996	34,385

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 liquidated agents, a settlement offer made to non-accepting Names in January 2001, and debt recovery activity. These recoveries have been credited to income.

9 Transfers to Lloyd's New Central Fund

The Council of Lloyd's decided to increase the assets of the New Central Fund by transferring a total of £80m during 2001.

10 Taxation credit/(charge)

	2001 £000	2000 £000
UK corporation tax based on profits for the year at 30% (2000: 30%)	(1,326)	(553)
Prior year adjustments:		
Tax credits arising from release of prior year provisions	553	10,006
Group tax relief from non-consolidated subsidiary	1,191	8,764
Overseas tax charge	(12)	(19)
Share of associates' tax charges	(60)	–
	346	18,198

Prior year losses brought forward have covered the majority of the 2001 taxable income. There is £nil tax charge in respect of non-operating exceptional items.

There is no unprovided deferred tax liability as at 31 December 2001.

11 Fixed assets

	Freehold land and buildings £000	Plant and other fixed assets £000	Total £000
Cost:			
At 1 January 2001	42,715	75,947	118,662
Additions	–	3,520	3,520
Disposals	(32,302)	(19,037)	(51,339)
At 31 December 2001	10,413	60,430	70,843
Depreciation:			
At 1 January 2001	16,917	60,520	77,437
Charge for the year	171	4,295	4,466
Disposals	(13,912)	(11,803)	(25,715)
At 31 December 2001	3,176	53,012	56,188
Net book value:			
At 31 December 2001	7,237	7,418	14,655
At 31 December 2000	25,798	15,427	41,225

Included in freehold land and buildings is land valued at £2.5m (2000: £4.2m) which has not been depreciated in the year.

A deferred tax asset of £1m relating to accelerated capital allowances on fixed assets has not been provided in the financial statements (2000: £2m).

Balances at 1 January 2001 have been restated to reflect a reclassification between asset categories.

Notes to the financial statements *continued*

12 Profit on sale of the Lloyd's 1958 building

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 £49.4m included land, buildings, plant and other assets. The leaseback expired on 31 December 2001 and Lloyd's vacated the building on that date. The net book value of the assets sold amounted to £23.9m with directly attributable costs of £0.4m. The agreement also provided for Lloyd's to benefit from any enhanced value as a result of the site being redeveloped.

No chargeable gain is stated within these financial statements as the indexed tax base costs exceed the chargeable proceeds received.

The mortgage loan of £24m which was secured on the property was repaid on 8 February 2001.

13 Principal investments in subsidiary companies and associates

Entity	Nature of business	Proportion of equity capital held
Subsidiaries		
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%
lloyds.com Limited	Web-based commercial insurance and reinsurance portal for insurance intermediaries and sophisticated buyers	100%
Associates		
Ins-sure Holdings Limited	Provision of premiums and claims accounting and settlement, policy production and ancillary insurance services principally to the London insurance market	25%
Xchanging Claims Services Limited	Provision of claims and recoveries services	50%

Centrewrite and Lioncover are not consolidated (see note 14).

During 2001 the Corporation acquired interests in Ins-sure Holdings Limited and Xchanging Claims Services Limited (see note 25).

The issued share capital of Ins-sure Holdings Limited is £4,000. There are three separate classes of shares. The Corporation holds 1,000,000 B shares of 0.1p each that have the following rights with respect to dividends:

- A right to a dividend of an amount equal to 60% of the tax saving achieved in any financial year through the use of carried forward trading losses as at 30 April 2001 within LPSO Limited.
- A maximum dividend accrual right of £924,000 following a capital reduction by LPSO Limited. The accrual right in any financial year is equal to the amount of the release during that year of the undertaking given to the court by LPSO Limited in favour of its creditors, provided that the aggregate of all dividend rights does not exceed £924,000.
- The B shares participate in 25% of any profits available for distribution after taking account of the dividend rights outlined above.
- In addition, the B shares carry a right to the first £3,000,000 of dividends that would have accrued to the holders of the C shares.

The issued share capital of Xchanging Claims Services Limited is £4,001. There are three separate classes of shares. The Corporation holds 1,000 A shares of £1 each and 2,501 C shares of £1 each. The A and C shares have the following rights with respect to dividends:

- The C shares carry a right to a fixed cumulative preference dividend of 5% calculated on the nominal capital and a variable participating dividend calculated by reference to trading profits.

- b) The A shares carry a right to a dividend of an amount equal to 60% of the tax saving achieved in any financial year through the use of carry forward trading losses as at 31 October 2001 within LCO Marine Limited and/or LCO Non-Marine and Aviation Limited.
- c) A maximum dividend accrual right of £1,500,000 accrues to the A shares provided that a capital reduction by LCO Marine Limited takes place before 31 December 2002. The accrual right in any financial year is equal to the amount of the release during that year of any undertaking given to the court by LCO Marine Limited in favour of its creditors, provided that the aggregate of all dividend rights does not exceed £1,500,000.
- d) The A shares participate in 50% of any profits available for distribution after taking account of the dividend rights outlined above.

14 Investments

A	Investments in associates	Goodwill £000	Share of other net assets £000	2001 £000	2000 £000
	On acquisition	1,175	3,153	4,328	–
	Share of operating profits before exceptional items	–	216	216	–
	Share of exceptional items (<i>see below</i>)	–	(495)	(495)	–
	Amortisation of goodwill	(78)	–	(78)	–
	Share of interest income	–	80	80	–
	Share of tax on loss on ordinary activities	–	(60)	(60)	–
	At 31 December	1,097	2,894	3,991	–

Exceptional items relate to redundancy costs arising from the restructuring within Ins-sure Holdings Limited.

Goodwill is being amortised over 10 years.

B	Subsidiary companies not consolidated	2001 £000	2000 £000
	Shares of non-consolidated subsidiary companies at cost	44	44
	Current accounts	77	72
		121	116

Non-consolidated insurance related subsidiaries 2001 balance sheet summary	Centrewrite £000	Lioncover £000	Total £000
Investments	56,279	–	56,279
Current assets	8,755	41	8,796
Current liabilities	(2,796)	(40)	(2,836)
	62,238	1	62,239
Creditors over one year:			
Insurance fund	(31,885)	–	(31,885)
Shareholders' funds at 31 December 2001	30,353	1	30,354
Shareholders' funds at 31 December 2000	35,088	1	35,089
Retained loss for the year	(4,735)	–	(4,735)

Dividends amounting to £7.3m were paid by Centrewrite to the Corporation in the year ended 31 December 2001 (2000: £nil).

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.

Notes to the financial statements *continued*

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 2001.

	2001 £000	2000 £000
15 Statutory insurance deposits		
Held by subsidiary companies:		
Statutory insurance deposits	57,757	55,836
Funding provided by syndicates and Equitas	(53,665)	(49,852)
	4,092	5,984

Statutory insurance deposits	Securities £000	Cash deposits £000	2001 Total £000	2000 Total £000
Movement in the year:				
Market value at beginning of year	26,079	29,757	55,836	141,575
Additions at cost	32,768	42,867	75,635	136,572
Disposal proceeds	(22,910)	(50,905)	(73,815)	(223,002)
Gain/(loss) on disposal	(377)	525	148	1,473
Year end revaluation	(13)	(34)	(47)	(782)
Market value at end of year	35,547	22,210	57,757	55,836

Analysis of securities at year end – statutory insurance deposits	2001		2000	
	Cost £000	Valuation £000	Cost £000	Valuation £000
Listed on:				
London Stock Exchange	4,178	4,158	3,173	3,152
Overseas stock exchanges	28,420	28,062	20,131	19,693
	32,598	32,220	23,304	22,845
Unlisted:				
Fixed interest	3,728	3,327	3,702	3,234
	36,326	35,547	27,006	26,079

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:

	2001 £000	2000 £000
Foreign treasury bills – at market value	2,566	2,397
Foreign government debentures – at par and market value	761	837
	3,327	3,234

Funding provided by syndicates and Equitas

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

	2001 £000	2000 £000
Equitas	(1,464)	(8,031)
Lloyd's Market – deposit	(52,201)	(41,821)
	(53,665)	(49,852)
Allocated:		
Financing of underwriting deposits	(48,463)	(44,885)
Working capital	(5,202)	(4,967)
	(53,665)	(49,852)

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, 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 23).

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.

16 Stocks	2001 £000	2000 £000
Consumables	454	749
	454	749
17 Debtors and prepayments	2001 £000	2000 £000
Due within one year:		
Trade and other debtors	28,760	31,428
Corporation tax	–	3,630
Group tax relief receivable	1,557	8,764
Prepayments and accrued income	21,074	14,430
	51,391	58,252
Due after more than one year:		
Other debtors	2,500	–

Notes to the financial statements *continued*

18 Pension scheme

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 2001 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 1.8% per annum. The real rate of return on investments held at the valuation date was assumed to be approximately 3.65%. The market value of the scheme's assets at the date of valuation was £301m, which equates to some 117% of the benefits that had accrued to members, after allowing for assumed future increases in pensionable remuneration. These figures exclude both liabilities and the related assets in respect of money purchase AVCs and in respect of the accrued benefits of scheme members employed by LPSO Limited, LCO Marine Limited and LCO Non-Marine and Aviation Limited as these companies ceased to be subsidiaries during the year (see note 25). The surplus in the scheme is being eliminated by a pension contribution holiday.

The next valuation will be conducted as at 30 June 2004.

The disclosures required in relation to the transitional arrangements within FRS17 'Retirement Benefits' have been based on the most recent formal actuarial valuation as at 30 June 2001 updated to 31 December 2001. The major financial assumptions used by the actuary as at 31 December 2001 for the purposes of FRS17 were as follows:

	% per annum
General salary and wage inflation	4.30%
Rate of increase in pensions in payment (in excess of GMP's)	2.50%
Increases to deferred pensions	2.50%
Discount rate	5.75%
Price inflation	2.50%

	Expected rate of return % per annum	Fair value £m
Asset analysis of the scheme and expected returns as at 31 December 2001		
Bonds	5.2%	46
Equities	8.0%	215
Cash and net current assets	4.0%	15
Total market value of assets		276
Actuarial value of liability		(284)
Deficit in the scheme		(8)
Related deferred tax asset		2
Net pension liability		(6)

The table below shows the accumulated reserves of the Corporation as disclosed in the balance sheet adjusted for the requirements of FRS17 as at 31 December 2001:

	£m
Accumulated reserves	83
Exclude SSAP24 pension scheme prepayment	(25)
Net pension liability under FRS17	(6)
Accumulated reserves including pension liability	52

19 Current asset investments

	2001 £000	2000 £000
Short-term deposits and certificates of deposit	31,089	42,734
Total current asset investments	31,089	42,734

Included in the table above are money market instruments not repayable on demand without penalty.

Notes to the financial statements *continued*

	2001 £000	2000 £000
22 Notes to the cash flow statement:		
A Reconciliation of operating profit to operating cash flows		
Operating deficit	(34,175)	(24,926)
Depreciation charges	4,466	7,342
Loss/(profit) on sale of fixed assets	488	(103)
Profit on disposal of discontinued operations	–	(319)
Profit on disposal of insurance deposits	(148)	(1,473)
Loss on revaluation of insurance deposits	47	782
Profit on revaluation of underwriting loans	(912)	(116)
Decrease/(increase) in stocks	295	(355)
(Increase)/decrease in debtors	(4,642)	7,362
Decrease in creditors	(3,265)	(6,480)
Increase in provisions	6,436	–
	(31,410)	(18,286)
Premium levy collection	120,859	97,161
Market settlement recoveries	17,996	34,385
Transfers to Lloyd's New Central Fund	(80,000)	–
Net cash inflow from operating activities	27,445	113,260
B Analysis of cash flows for headings netted in the cash flow statement		
Returns on investments and servicing of finance:		
Dividends received	7,300	–
Interest received	7,561	9,238
Interest paid	(7,257)	(17,753)
	7,604	(8,515)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(4,614)	(3,931)
Sale of tangible fixed assets	49,968	469
	45,354	(3,462)
Acquisitions and disposals of business operations:		
Sale of businesses	(18,206)	2,557
Management of liquid resources:		
Purchase of cash deposits	(50,014)	(120,214)
Purchase of securities	(32,768)	(16,032)
Sale of cash deposits	62,550	204,122
Sale of securities	22,910	18,880
	2,678	86,756
Financing:		
Increase/(decrease) in borrowings for insurance deposits	4,725	(84,729)
Repayment of mortgage loan	(24,000)	–
Repayment of syndicated bank loan	(78,352)	(88,366)
	(97,627)	(173,095)

C Analysis of net funds/(debt)	At 1.1.01 £000	Cash flow £000	Other movements £000	At 31.12.01 £000
Cash in hand, at bank	43,527	(12,301)	–	31,226
Overnight deposit (see below, b)	10,100	(7,147)	–	2,953
	53,627	(19,448)	–	34,179
Current asset investments (see below, a)	42,734	(11,645)	–	31,089
Other deposits (see below, b)	45,736	8,967	101	54,804
Debt due within one year:				
Funding of statutory insurance deposits	(49,852)	(4,725)	912	(53,665)
Corporation (see below, c)	(102,352)	102,352	–	–
	(10,107)	75,501	1,013	66,407

- a) Current asset investments comprise short-term deposits and certificates of deposit that are not repayable on demand without penalty.
- b) Overnight deposits and other deposits relating to the funding of Additional Securities Limited are included in the balance sheet under statutory insurance deposits.
- c) Corporation debt due within one year is included in the balance sheet under creditors.

23 Interest rate exposure of financial assets and liabilities as at 31 December 2001

	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	4,158	38,496	42,654	–	(3,145)	(3,145)	39,509
United States dollar	–	7,807	7,807	–	–	–	7,807
Canadian dollar	385	4,765	5,150	–	–	–	5,150
Japanese yen	–	9,643	9,643	–	(1,208)	(1,208)	8,435
Australian dollar	–	779	779	–	(778)	(778)	1
Swiss franc	27,206	7,150	34,356	–	(33,694)	(33,694)	662
Singapore dollar	–	8,305	8,305	–	(8,287)	(8,287)	18
South African rand	–	2,095	2,095	–	(1,464)	(1,464)	631
Cyprus pound	384	2,545	2,929	–	(3,932)	(3,932)	(1,003)
Others	2,702	6,152	8,854	–	(1,157)	(1,157)	7,697
	34,835	87,737	122,572	–	(53,665)	(53,665)	68,907
Of which:							
Unhedged statutory insurance deposits	34,835	22,922	57,757	–	(53,665)	(53,665)	4,092
Other debtors due after more than one year	–	2,500	2,500	–	–	–	2,500
Investments	–	31,089	31,089	–	–	–	31,089
Cash and deposits	–	31,226	31,226	–	–	–	31,226
	34,835	87,737	122,572	–	(53,665)	(53,665)	68,907

Short-term debtors and creditors, including forward foreign exchange transactions, have been excluded from the above table. At 31 December 2001 the asset value included within debtors for these transactions amounted to £1,298,000 and the liability value within creditors for these transactions amounted to £1,265,000 giving a net unrealised gain of £33,000.

There are no hedged statutory insurance deposits or interest rate swaps extant at 31 December 2001.

Notes to the financial statements *continued*

	2001 £000	2000 £000
24 Accumulated reserves		
Balance at 1 January	19,160	(99,456)
Total recognised gains and losses for the year	63,486	118,616
Balance at 31 December	82,646	19,160
Attributable to:		
Corporation of Lloyd's	79,272	9,382
Consolidated subsidiaries	3,711	9,778
Associates	(337)	–
	82,646	19,160

	LPSO Limited disposal £000	LCO Marine Limited and LCO Non-Marine and Aviation Limited disposal £000	Total 2001 £000	Total 2000 £000
25 Sale of business operations				
Tangible fixed assets	774	120	894	132
Stocks and work in progress	–	–	–	1,249
Cash	5,622	12,584	18,206	–
Debtors	2,719	1,480	4,199	1,218
Creditors	(7,685)	(11,672)	(19,357)	(361)
	1,430	2,512	3,942	2,238
Unrealised profit/(loss) on disposal	5,156	(351)	4,805	–
Realised profit on disposal	–	–	–	319
	6,586	2,161	8,747	2,557
Satisfied by:				
Cash	–	–	–	2,557
Deferred consideration	206	289	495	–
Future dividends	3,424	1,500	4,924	–
Investment in associates – net assets	2,781	372	3,153	–
Investment in associates – goodwill	1,175	–	1,175	–
	7,586	2,161	9,747	2,557
Less: provision for obligations under sale agreements	(1,000)	–	(1,000)	–
	6,586	2,161	8,747	2,557

On 30 April 2001 Lloyd's transferred its wholly owned subsidiary, LPSO Limited, to Ins-sure Holdings Limited, a partnership between Xchange BV, the International Underwriting Association and Lloyd's. In consideration for the transfer the Corporation acquired a 25% interest in Ins-sure Holdings Limited.

In the period to 30 April 2001, LPSO Limited utilised £3,906,000 of the group's net operating cash flows, paid £3,125,000 in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £120,000 for capital expenditure and financial investment.

On 31 October 2001, Lloyd's transferred its wholly owned subsidiaries LCO Marine Limited and LCO Non-Marine and Aviation Limited to Xchanging Claims Services Limited. In consideration for the transfer the Corporation acquired a 50% interest in Xchanging Claims Services Limited.

In the period to 31 October 2001, LCO Marine Limited and LCO Non-Marine and Aviation Limited utilised £2,775,000 of the group's net operating cash flows, paid £2,034,000 in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £46,000 for capital expenditure and financial investment.

The Corporation has accounted for its interests in Ins-sure Holdings Limited and Xchanging Claims Services Limited as associates.

26 Commitments

A Capital expenditure commitments

No contractual commitments exist at 31 December 2001 other than those included within the financial statements. The same applied at 31 December 2000.

B Operating lease commitments

The annual commitments under non-cancellable operating leases are as follows:

	2001 Land and buildings £000	2000 Land and buildings £000
Leases expiring:		
Over five years	16,767	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. The lease was subject to a rent review in March 2001.

27 Disclosure of related party transactions

In accordance with the exemption allowed by FRS8 'Related Party Disclosures', transactions with entities within the group have not been disclosed.

Services provided to Ins-sure Holdings Limited group in the eight months ended 31 December 2001 included operating systems support and development, premises and other administrative services. The total value of the services provided was £6,942,000. In addition, Ins-sure Holdings Limited group have charged the Corporation £237,000 for services provided in the same period.

At 31 December 2001 there was a balance of £2,502,000 owing from Ins-sure Holdings Limited group to the Corporation.

Services provided to Xchanging Claims Services Limited group in the two months ended 31 December 2001 included premises and other administrative services. The total value of the services provided was £391,000. Xchanging Claims Services Limited group did not charge the Corporation for any services in the same period.

At 31 December 2001 there was a balance of £700,000 owing from Xchanging Claims Services Limited group to the Corporation.

During 2001, the Corporation paid fees of £7,000 (2000: £144,000) for professional services rendered by Simmons & Simmons in which Bill Knight, a member of Council, was a partner.

In the normal course of business the Corporation's own insurance arrangements may be underwritten by Lloyd's syndicates. Any such arrangements are based on independent professional advice.

There were no other related party transactions in 2001.

Notes to the financial statements *continued*

28 Contingent liabilities

- A** General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 31 December 2001 amounted to £8.5m (2000: £7.2m).
- 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 financial statements of the Lloyd's Central Fund on pages 74 to 84 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:

					2001 £000	2000 £000
Guarantees provided by the Corporation of Lloyd's:						
USA	US\$	1,500,000	(2000: US\$	1,500,000)	1,000	1,000
Guarantees provided by the Corporation of Lloyd's and Additional Securities Limited:						
Cayman Islands:						
liability	US\$	1,000,000	(2000: US\$	1,000,000)	700	700
Hong Kong:						
liability	HK\$	116,800,000	(2000: HK\$	nil)	10,300	–

- 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 of 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 United Kingdom, 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' appeal against this judgement commenced on 4 March 2002. Lloyd's does not accept any liability in respect of this action.
- F** In Australia four 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-F, no provision is made in these financial statements.

Five year summary

	1997 £000	1998 £000	1999 £000	2000 £000	2001 £000
Consolidated revenue account					
Operating income	186,855	178,112	164,406	146,240	143,169
Operating expenses:					
Employment	(73,591)	(74,544)	(70,316)	(53,195)	(44,793)
Premises	(31,433)	(29,166)	(24,551)	(27,874)	(37,853)
Overseas operating expenses	(19,325)	(18,029)	(17,401)	(18,136)	(22,112)
Other expenses	(46,677)	(61,057)	(60,975)	(71,961)	(72,586)
Operating expenses	(171,026)	(182,796)	(173,243)	(171,166)	(177,344)
Operating (deficit)/surplus	15,829	(4,684)	(8,837)	(24,926)	(34,175)
Share of operating profits of associates before exceptional items	–	–	–	–	216
Share of exceptional items of associates	–	–	–	–	(495)
Amortisation of goodwill arising on acquisition of associate	–	–	–	–	(78)
Total operating deficit	15,829	(4,684)	(8,837)	(24,926)	(34,532)
Profit on disposal of businesses	–	–	–	319	–
Profit on sale of the Lloyd's 1958 Building	–	–	–	–	25,069
Net interest income/(expenditure)	(22,269)	(16,225)	(13,092)	(7,064)	2,505
Dividends received	–	–	–	–	7,300
Market settlement net	41,243	53,994	97,607	132,089	137,993
Transfers to Lloyd's New Central Fund	–	–	–	–	(80,000)
Taxation credit/(charge)	(32)	(8,816)	1,191	18,198	346
Surplus for the year	34,771	24,269	76,869	118,616	58,681
	Number	Number	Number	Number	Number
Average numbers of employees during the year	1,880	1,833	1,645	1,176	825

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 financial statements 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 2001 was 0.75% for all members except for new corporate members underwriting on new syndicates who paid 1.5% (2000: 1% for all members).

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, at the discretion of the Council of Lloyd's, to discharge the underwriting liabilities of members in the event of default.

Financial commentary

As at 31 December 2001, the net assets of the combined Central Fund amounted to £280.2m, a decrease of £42.7m 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. As at 31 December 2001 no claim had been made under this policy although a claim is expected to be made in 2002. Lloyd's New Central Fund paid premiums of £16.5m in 2001 (2000: £16.4m).

Other Claims and Provisions charged in the general fund account of £157.7m include £39.9m paid and a provision of £100m for amounts payable, net of amounts receivable under the New Central Fund insurance policy, in respect of undertakings given in respect of insolvent corporate members.

During 2001 the Lloyd's New Central Fund received contributions amounting to £84.8m and refunded £48.6m in respect of members' special contributions in accordance with *Reconstruction & Renewal*.

The New Central Fund has received £80m from the Corporation, following September 11, in order to boost its assets.

New Central Fund contributions for 2002 have been increased to 1% of overall allocated premium limits for all members. Contributions received in April 2002 totalled £122m.

Lloyd's Central Fund – Independent auditor's report to the Council of Lloyd's

We have audited the financial statements for the year ended 31 December 2001 which comprise the balance sheet, general fund account, cash flow statement and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of the Council of Lloyd's and auditors

The Council is responsible for the administration of the Fund and approval of the financial statements prepared by Lloyd's in accordance with the principles outlined in the Corporation's financial statements.

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

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, Lloyd's has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Council in the preparation of the financial statements, 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 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 financial transactions of the Fund for the year ended 31 December 2001 and of the disposition at that date of its assets and liabilities.

Ernst & Young LLP

Registered Auditor

London

10 April 2002

Lloyd's Central Fund balance sheet

as at 31 December 2001

	Note	2001 £000	2000 £000
New Central Fund		256,245	294,070
"Old" Central Fund		23,931	28,773
Total Fund balance		280,176	322,843
Represented by:			
Investments			
Listed:			
United Kingdom		140,177	144,648
Overseas		133,437	141,447
Short-term deposits		87,291	24,768
	6	360,905	310,863
Current assets			
Debtors	7	127,143	13,000
Taxation	9	–	9,499
Cash		566	58
		127,709	22,557
Total assets		488,614	333,420
Current liabilities			
Creditors	10	(3,995)	(6,411)
Total assets less current liabilities		484,619	327,009
Provisions for liabilities and charges			
Undertakings given to insolvent members	11	(204,443)	–
Deferred taxation	9	–	(4,166)
Net assets		280,176	322,843

Signed on behalf of the Council of Lloyd's on 10 April 2002

S Riley *Chairman*

N E T Prettejohn *Chief Executive Officer*

Lloyd's Central Fund general fund account

for the year ended 31 December 2001

	Note	New Central Fund 2001 £000	"Old" Central Fund 2001 £000	Total 2001 £000	Total 2000 £000
Income					
Contribution from members of Lloyd's	5	84,750	–	84,750	101,152
Contribution from "Old" Central Fund	5	20,000	–	20,000	–
Contribution from Corporation	5	80,000	–	80,000	–
Profit from sale of investments	6	11,127	–	11,127	5,380
Dividends and interest		13,051	4,204	17,255	18,117
Recoveries		–	7,288	7,288	11,620
		208,928	11,492	220,420	136,269
Expenditure					
Contribution to New Central Fund		–	(20,000)	(20,000)	–
Refunds of members' special contributions		(48,628)	–	(48,628)	(57,523)
Income Support Schemes		–	(1,969)	(1,969)	(2,043)
Other claims and provisions	8	(158,763)	1,062	(157,701)	(2,794)
Insurance premiums and brokerage fees		(16,657)	–	(16,657)	(16,755)
Administrative expenses		(424)	(308)	(732)	(774)
(Loss)/gain on exchange		(592)	–	(592)	1,221
		(225,064)	(21,215)	(246,279)	(78,668)
(Deficit)/surplus before taxation		(16,136)	(9,723)	(25,859)	57,601
Taxation credit	9	680	6,403	7,083	13,478
Net (deficit)/surplus for the year		(15,456)	(3,320)	(18,776)	71,079
(Decrease)/increase in valuation of investments during the year					
Unrealised exchange gain	6	702	–	702	5,667
Unrealised decrease in market valuation of investments	6	(27,239)	(1,520)	(28,759)	(9,383)
Decrease in provision for deferred taxation	9	4,166	–	4,166	2,639
		(22,371)	(1,520)	(23,891)	(1,077)
(Decrease)/increase in general fund for the year		(37,827)	(4,840)	(42,667)	70,002

There were no recognised gains or losses in the year other than those dealt with in the general fund account (2000: £nil).

Lloyd's Central Fund cash flow statement

for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
Cash inflow from operating activities	12	52,303	42,232
Taxation received/(paid)		15,769	(157)
Cash inflow before use of liquid resources and financing		68,072	42,075
Management of liquid resources	13	(66,310)	(41,841)
Increase in cash in the period		1,762	234
Reconciliation of net cashflow to movement in net funds (note 13)			
Increase in cash in the period		1,762	234
Cash inflow from movement in liquid resources		66,310	41,841
Change in net funds resulting from cash flows		68,072	42,075
Profit from sale of investments	6	11,127	5,380
(Loss)/gain on exchange		(592)	1,221
Movement in valuation of investments	6	(28,057)	(3,716)
Movement in net funds in the period		50,550	44,960
Net funds at 1 January		310,921	265,961
Net funds at 31 December	14	361,471	310,921

Lloyd's Central Fund notes to the financial statements

as at 31 December 2001

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 as at 31 December 2001. The liabilities of the Fund include those amounts contractually committed by the Fund to be paid and exclude provision for future discretionary payments. The financial statements therefore do not take account of claims approved 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 2001 the Central Fund has adopted FRS18 'Accounting Policies'. There has been no material impact on the financial statements as a result of adopting this standard.

From 30 November 2001, Lloyd's has been regulated by the Financial Services Authority (FSA).

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 or contractually committed, net of insurance recoveries. Recoveries, other than insurance recoveries, in respect of claims approved are credited to the general fund account when received.

D Loans and provisions

Loans made to syndicates are only recognised as debtors to the extent that they are expected to be recoverable from solvent members.

E 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.

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.

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 2001, solvency shortfalls relating to the 2000 solvency test amounted to £92.6m (as at 31 December 2000 relating to the 1999 solvency test: £11.5m). The results of the 2001 solvency test will not be determined until June 2002.

The Council of Lloyd's has given undertakings to certain insolvent members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls. The purpose of these undertakings is to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full as and when the claims fall due. Provision has been made for undertakings given during 2001 on the basis that they represent contractual commitments (see *note 11*). Subsequent to the year end, on 6 March 2002, undertakings of up to a further £183m were given. No provision has been included in these financial statements in respect of these further undertakings. When they are charged to the general fund account in 2002 it is assumed that a further insurance claim will be made in respect of substantially all of the further undertakings of £183m.

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

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 (*see note 10*).

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 bond. 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. No provision has been included in these financial statements in respect of this contingent liability.

On 31 August 2001 the Corporation of Lloyd's established an uncollateralised US\$15m letter of credit arrangement on behalf of an insolvent corporate member. The purpose of the letter of credit facility is to ensure that the insolvent corporate member meets its US Trust Fund funding obligations. The letter of credit is in favour of Citibank N.A., the trustee of the US Surplus Lines Trust Fund, and expires on 21 October 2002. No provision has been included in these financial statements in respect of this contingent liability.

5 Contributions to New Central Fund

The New Central Fund received contributions from members amounting to £84.8m in 2001 (2000: £101.1m). The Corporation of Lloyd's transferred £80m to the New Central Fund during 2001 in order to boost the assets of the Fund. In addition, £20m was transferred from the "Old" Central Fund. This is in respect of the continuing policy of transferring surplus funds to the New Central Fund.

6 Investments	2001 £000	2000 £000
Movement in the year:		
Market value at beginning of year	310,863	265,945
Additions at cost	228,856	200,004
Increase/(decrease) in short-term deposits	62,523	(30,880)
Proceeds from disposals	(224,407)	(125,870)
Profit on disposals	11,127	5,380
Increase/(decrease) in valuation of investments during the year:		
Unrealised exchange gain	702	5,667
Unrealised decrease in market valuation	(28,759)	(9,383)
Market value at end of year	360,905	310,863
Analysis of securities at year end:		
Listed on London Stock Exchange:		
Fixed interest	69,822	61,322
Equities	70,355	83,326
	140,177	144,648
Listed on Overseas stock exchanges:		
Fixed interest	73,330	73,927
Equities	60,107	67,520
	133,437	141,447
Short-term deposits	87,291	24,768
	360,905	310,863

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

7 Debtors	2001 £000	2000 £000
Interest and dividends receivable	4,123	3,258
Prepaid insurance premiums	8,853	9,330
Loans due from syndicates net of provisions	8,459	72
Insurance policy claim receivable (<i>note 11</i>)	104,443	–
Other debtors and prepayments	1,265	340
	127,143	13,000

8 Other claims and provisions	2001 £000	2000 £000
Claims paid in respect of insolvent corporate members	39,857	–
Claims paid in respect of individual members	1,215	2,794
Net provision against loans to syndicates	16,611	–
Provision for amounts payable under undertakings given to insolvent members (<i>note 11</i>)	100,000	–
Other claims	18	–
	157,701	2,794

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

9 Taxation	New Central Fund 2001 £000	"Old" Central Fund 2001 £000	Total 2001 £000	Total 2000 £000
UK corporation tax based on profits for the year at 30% (2000: 30%)	–	–	–	(971)
Prior year adjustments:				
Tax credits arising from release of prior year provisions	813	–	813	18,731
Write back/(off) of prior year tax debtors	–	6,403	6,403	(4,282)
Overseas tax charge	(133)	–	(133)	–
	680	6,403	7,083	13,478
Analysis of taxation debtor:				
Income tax recoverable	–	–	–	6,749
Group tax relief receivable	–	–	–	2,750
	–	–	–	9,499
Deferred taxation				
At 1 January	(4,166)	–	(4,166)	(6,805)
Credit for the year	4,166	–	4,166	2,639
At 31 December	–	–	–	(4,166)

A deferred tax asset of £2.4m as at 31 December 2001 relating to net unrealised investment depreciation has not been recognised (2000: £nil).

10 Creditors	2001 £000	2000 £000
Hardship Names (<i>note 4</i>)	1,964	2,971
Corporation tax	–	813
Other creditors and accruals	148	602
Income Support Schemes	1,883	2,025
	3,995	6,411

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 2002.

11 Provision for undertakings given to insolvent members

The Council of Lloyd's has given undertakings to certain insolvent members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls. The purpose of these undertakings is to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full as and when the claims fall due.

The aggregate amount of all such undertakings given by the Council at 31 December 2001 was £244.3m, of which £39.9m had been paid by that date. Provision has been included in these financial statements in respect of these undertakings as follows:

Undertakings	2001 £000	2000 £000
As at 1 January	–	–
Undertakings given during the period	244,300	–
Paid during the period and charged to general fund account – not subject to insurance policy claim	(39,857)	–
Provision for amounts payable as at 31 December 2001	204,443	–
Insurance policy claim receivable (<i>see below and note 7</i>)	(104,443)	–
Net provision charged to general fund account (<i>note 8</i>)	100,000	–

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 maximum of £350m per annum where such cash calls exceed £100m in any one year. The aggregate

maximum payment over the lifetime of the policy is £500m. No claims had been made under the policy by 31 December 2001. However, unrecovered losses to the New Central Fund will exceed £100m in 2002. Therefore a claim will be made and amounts receivable under the policy in respect of undertakings given as at 31 December 2001 have been reflected in these financial statements.

12 Reconciliation of operating surplus to operating cash flows	2001 £000	2000 £000
(Deficit)/surplus before taxation	(25,859)	57,601
Provisions in respect of undertakings given to insolvent members	100,000	–
Profit on sale of investments	(11,127)	(5,380)
Loss/(gain) on exchange	592	(1,221)
Increase in accrued income	(865)	(351)
Increase in other debtors	(8,835)	(8,178)
Decrease in creditors	(1,603)	(239)
Net cash inflow from operating activities	52,303	42,232

13 Analysis of cash flows for headings netted in the cash flow statement	2001 £000	2000 £000
Management of liquid resources:		
Purchase of government securities	(284,638)	(107,715)
Purchase of equities	(9,500)	(61,407)
Sale of government securities	216,575	126,125
Sale of equities	11,253	1,156
Net cash outflow from management of liquid resources	(66,310)	(41,841)

14 Analysis of net funds	At 1.1.01 £000	Cash flow £000	Other movements £000	At 31.12.01 £000
Cash at bank	58	1,762	(1,254)	566
Current investments	310,863	66,310	(16,268)	360,905
	310,921	68,072	(17,522)	361,471

Other movements include realised and unrealised exchange differences arising on the revaluation of foreign currency operating cashflows and investments.

15 Tutelle Limited

In 1996 the Council set aside in Tutelle Limited, 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.

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

16 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 2001.

The role of the Lloyd's Members' Ombudsman is to investigate complaints by members of the Society who believe that they have suffered injustice in consequence of maladministration in relation to any action taken by or on behalf of the Society. The Byelaw originally required that I also consider complaints from former members who had resigned but still had open years of account. The Byelaw has now been amended, with effect from December 2001, so that in the case of former members who have resigned, I am able to consider complaints only from those who were members at any time after 30 November 2001. The Ombudsman's powers do not extend to complaints that Names may have against underwriting agents.

During the year I received eight complaints; three fewer than the previous year. In three 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.

In one case a member submitted a complaint but indicated that he wished my investigation to be deferred until he had conducted his own negotiations with Lloyd's. To date the member has not requested that I conduct an investigation of the complaint. Three cases fell outside my jurisdiction and one case is still under investigation.

The expenses incurred by my office amounted to £30,926, a reduction in overall costs of £2,418 compared to 2000.

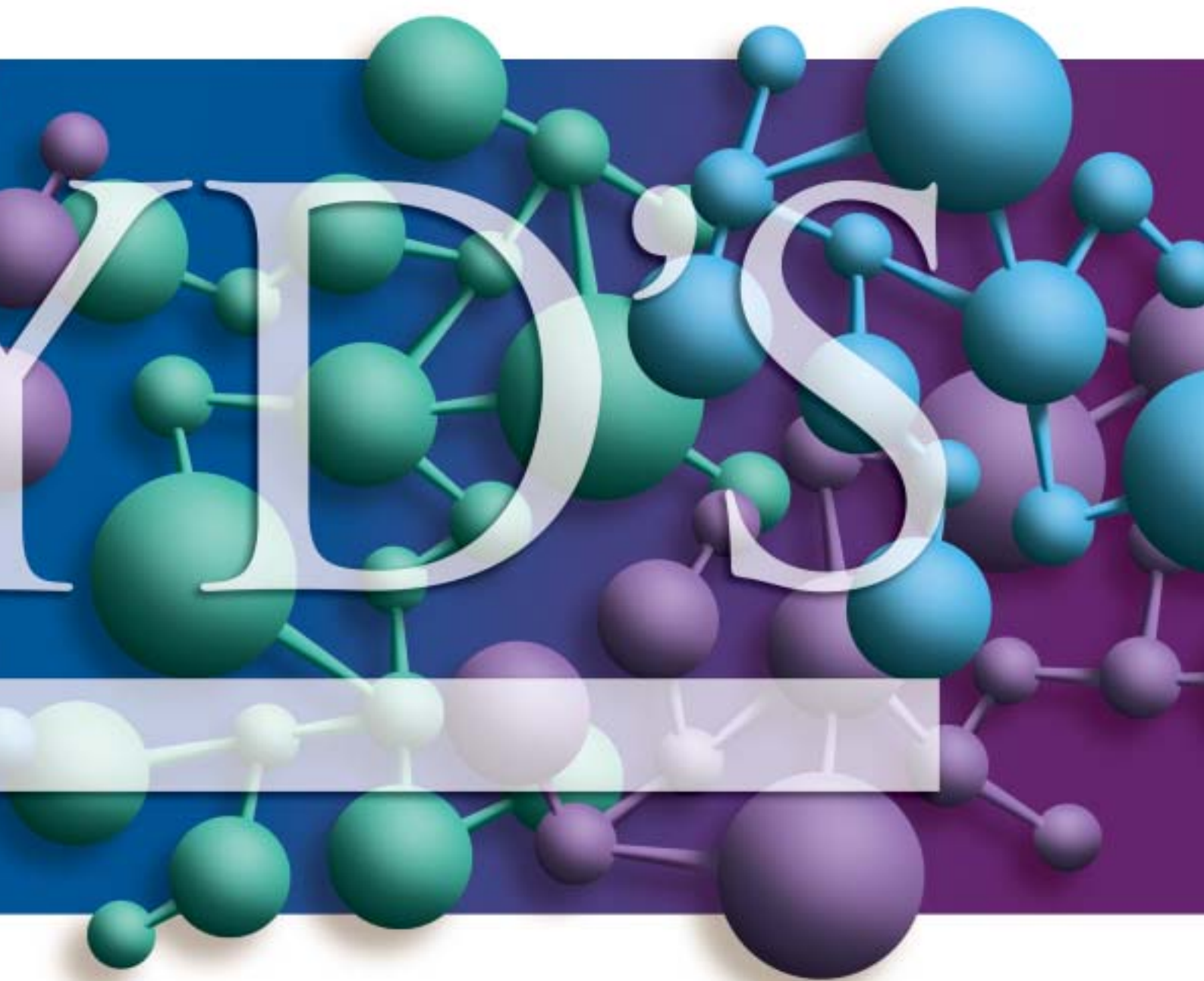


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