

LEGAL DISCLAIMER

The communication of information and services on the lloyds.com site is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. In particular, the contents and/or subject matter of the lloyds.com site does not constitute an offer of information, products or services to US persons or in the US, or in any other jurisdictions where such an offer may be unlawful.

Furthermore, the lloyds.com site and attached communications do not represent a prospectus or invitation in connection with any solicitation of capital. Nor does it constitute an offer to sell securities or insurance, a solicitation of an offer to buy securities or insurance, or a distribution of securities in the US or to a US person, or in any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal requirement.

No responsibility or liability is accepted by the Society of Lloyd's, the Council, any Committee or Board constituted by the Society of Lloyd's or the Council or any of their respective members, officers or advisors for any loss occasioned to any person acting or refraining from action as a result of any statement, fact, figure or expression of belief contained in this document or communication.

Applicants and potential applicants should take steps to understand Lloyd's, the Lloyd's market and the implications of participating in it. Applicants should understand that risk is the nature of insurance business and is inherent in the business underwritten at Lloyd's.

Lloyd's provides the material contained in this document or communication for general information purposes only. Lloyd's accepts no responsibility and shall not be liable for any loss which may arise from reliance upon the information provided.

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 'Old' Central 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 New Central

Fund each year based on a percentage of their allocated overall premium limit, partly by way of annual contribution and, from 2005, partly by way of loan from syndicate premiums trust funds. The annual contribution rate for 2004 was 1.25% (2003: 1%). New corporate members in 2004 underwriting on new syndicates are required to contribute at double the annual rate for their first three years of operations at Lloyd's. The New Central Fund syndicate loans rate is 0.75% of syndicate allocated capacity for the 2005 year of account. It is intended that syndicate loans will ordinarily be repaid on the closure of the year of account after three years.

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

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 2004 which comprise the balance sheet, general fund account, cash flow statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us as set out under the 'Respective responsibilities of the Council of Lloyd's and auditors' below. Our audit work has been undertaken so that we might state to the Council those matters we are required to state in this report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

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. You have instructed us to audit the financial statements in accordance with United Kingdom Auditing Standards and 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 2004 and of the disposition at that date of its assets and liabilities.

Ernst & Young LLP

Ernst & Young LLP, Registered Auditor, London

6 April 2005

LLOYD'S CENTRAL FUND BALANCE SHEET

as at 31 December 2004

	Note	2004 £000	2003 £000
New Central Fund		515,905	674,889
'Old' Central Fund		39,885	36,156
Total Fund balance	15	555,790	711,045
Represented by:			
Investments			
Listed:			
United Kingdom		517,383	162,205
Overseas		428,558	163,797
Short term deposits		91,625	164,987
	6	1,037,566	490,989
Current assets			
Debtors	7	136,112	358,353
Cash		16	48
		136,128	358,401
Total assets		1,173,694	849,390
Current liabilities			
Creditors	12	(19,561)	(58,516)
Total assets less current liabilities		1,154,133	790,874
Creditors – amounts due after more than one year			
Subordinated loan notes	14	(506,439)	–
Provisions for liabilities and charges			
Undertakings given to insolvent members	13	(91,904)	(79,829)
Net assets		555,790	711,045

Signed on behalf of the Council of Lloyd's on 6 April 2005



Lord Levene of Portsoken, Chairman



Nick Prettejohn, Chief Executive Officer

LLOYD'S CENTRAL FUND GENERAL FUND ACCOUNT

for the year ended 31 December 2004

	Note	New Central Fund 2004 £000	'Old' Central Fund 2004 £000	Total 2004 £000	Total 2003 £000
Operating income					
Contribution from members of Lloyd's	5	190,657	–	190,657	159,923
Contribution from Corporation of Lloyd's	5	–	–	–	279,493
Recoveries		20,114	4,564	24,678	5,465
Gain on exchange		253	–	253	–
		211,024	4,564	215,588	444,881
Operating expenditure					
Refunds of members' special contributions		(2,608)	–	(2,608)	(39,988)
Income Support Schemes		–	(2,193)	(2,193)	(1,622)
Other claims and provisions	8	(135,493)	–	(135,493)	(79,669)
Run-off project costs (incl. provisional liquidators' fees)		(2,273)	–	(2,273)	(3,421)
Insurance premiums and brokerage fees		–	–	–	(16,706)
Legal and professional fees		(5,570)	(10)	(5,580)	(1,282)
Administrative expenses		(399)	(397)	(796)	(817)
Loss on exchange		–	–	–	(267)
		(146,343)	(2,600)	(148,943)	(143,772)
Settlement of Central Fund arbitration dispute	9	(323,755)	–	(323,755)	–
		(470,098)	(2,600)	(472,698)	(143,772)
(Deficit)/surplus on ordinary activities before finance		(259,074)	1,964	(257,110)	301,109
Finance					
Dividends and interest receivable		18,965	2,541	21,506	15,477
Surplus on sale and revaluation of investments	6	13,787	550	14,337	13,972
Interest payable and similar charges	10	(6,676)	–	(6,676)	–
		26,076	3,091	29,167	29,449
(Deficit)/surplus before taxation		(232,998)	5,055	(227,943)	330,558
Taxation credit/(charge)	11	74,014	(1,326)	72,688	(95,750)
Net (decrease)/increase in general fund for the year		(158,984)	3,729	(155,255)	234,808

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

LLOYD'S CENTRAL FUND CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Cash inflow from operating activities before claims paid and insurance recoveries			
	16	214,028	380,966
Returns on investments and servicing of finance	17	9,788	15,262
Claims paid in respect of corporate members	13	(137,411)	(191,137)
Claims paid in respect of individual members	8	(2,677)	(4,447)
Cash inflow from operating activities		83,728	200,644
Taxation paid		(56,236)	(64,238)
Cash inflow before use of liquid resources and financing		27,492	136,406
Management of liquid resources	17	(532,240)	(136,119)
Financing	17	504,463	–
(Decrease)/increase in cash in the year		(285)	287
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year		(285)	287
Cash inflow from movement in financing	17	(504,463)	–
Cash outflow from movement in liquid resources	17	532,240	136,119
Change in net funds resulting from cash flows		27,492	136,406
Gain/(loss) on exchange of cash balances		253	(267)
Movement in valuation of investments	6	14,337	13,972
Movement in valuation of borrowings		(1,976)	–
Movement in net funds in the year		40,106	150,111
Net funds at 1 January		491,037	340,926
Net funds at 31 December	18	531,143	491,037

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2004

1. Basis of preparation

The Central Fund, which is held at the discretion of the Council of Lloyd's, has not been consolidated within the financial statements of the Corporation of Lloyd's as it is primarily a Fund available for the protection of policyholders and hence relates to the insurance-related activities of the members of Lloyd's.

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

These financial statements summarise the income, expenditure, assets and liabilities of the Fund at 31 December 2004. The liabilities of the Fund include those amounts contractually committed by the Fund 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.

FRS 13 'Derivatives and other financial instruments – disclosures' has been fully adopted in these financial statements including prior year comparatives (see note 19). In prior years, FRS 13 did not apply to the Central Fund. There has been no impact on the primary financial statements as a result of providing the additional disclosures.

Lloyd's is 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 credited 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.

Insurance recoveries arise from the operation of the New Central Fund insurance contract, which is described in note 9. The contract provided that where the New Central Fund has been applied to meet members' cash calls in respect of any one year, the New Central Fund is entitled to a matching recovery of the claim paid (a 'qualifying debt'), subject to the policy terms. Consequently, insurance recoveries are accounted for when a qualifying debt has been paid or is expected to be paid when undertakings (see note 3) have been given, in accordance with the principles of the Statement of Recommended Practice on Accounting for Insurance Business. The New Central Fund insurance contract commenced in 1999 and expired on 31 December 2003. However, insurers disputed their liability to meet the claims made under the policy and Lloyd's commenced arbitration proceedings in April 2003. A settlement was reached with all of the insurers on 14 March 2005 and the financial effect has been fully reflected in these financial statements.

Recoveries, other than insurance recoveries, in respect of claims approved are credited to the general fund account when contractually committed to be received. This is a change in accounting policy as recoveries were previously accounted for on a received basis. No amounts were receivable at 31 December 2003 and therefore no prior year adjustment is required.

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.

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS continued

as at 31 December 2004

2. Principal accounting policies continued

F Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. Deferred tax assets are recognised only to the extent that it is considered that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

G Subordinated loan notes

The subordinated loan notes are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the loan notes are subsequently recorded at amortised cost on a straight-line basis over the period to the earliest option date. Amortised cost is calculated by taking into account issue costs and issue discount.

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. The results of the 2004 solvency test will not be determined until June 2005.

The Council of Lloyd's has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by insolvent members to continue to be paid in full as and when the claims fall due. Provision has been made for these undertakings on the basis that they represent contractual commitments (see note 13). Unutilised undertakings as at 31 December 2004 were £91.9m. By 31 March 2005 this balance had been reduced to £5.0m by the payment of claims of £26.4m and the expiry of undertakings totalling £60.5m, which had been given in 2004. Those undertakings which expired have been replaced and further undertakings have been given on 6 April 2005 that total £277.0m, a net increase of £216.5m. No provision has been included in these financial statements in respect of these further undertakings.

On 11 April 2002 the Corporation of Lloyd's entered into an agreement with Cox Insurance Holdings plc ('CIH') and certain of its subsidiaries. Under the agreement, the underwriting liabilities of Cox Dedicated Corporate Member Limited ('CDCM') will be met from Funds at Lloyd's, profits arising in respect of the 2002 and prior years of account accruing to that member together with profits of the new corporate member, Equity Red Star Limited, arising in respect of the 2002 and prior years of account, a financing charge payable by Equity Red Star Limited and any amounts realised through the use of CDCM's tax losses within the Cox Group. Save as stated above, other assets of CIH shall not be available to meet the underwriting liabilities of CDCM. Based on information available to Lloyd's the underwriting liabilities of CDCM are not expected to exceed the available assets, as above. Therefore, no undertakings have been given in respect of CDCM and no provision has been included in these financial statements.

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.

Following the implementation of *Reconstruction and 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.

5. Contributions to New Central Fund

New Central Fund contributions from members amounted to £190.7m in 2004 (2003: £159.9m). There were no contributions from the Corporation of Lloyd's during the year (2003: £279.5m in respect of a premium levy which ceased at the end of 2003).

	2004 £000	2003 £000
Contributions from members		
Individual members	23,363	18,374
Corporate members	167,294	141,549
	190,657	159,923

	2004 £000	2003 £000
6. Investments		
Movement in the year:		
Market value at 1 January	490,989	340,898
Additions at cost	834,420	117,270
(Decrease)/increase in short term deposits	(70,636)	66,984
Proceeds from disposals	(231,544)	(48,135)
Surplus on sale and revaluation of investments	14,337	13,972
Market value at 31 December	1,037,566	490,989
Analysis of securities at year end:		
Listed on London Stock Exchange:		
Fixed interest	380,566	60,513
Equities	136,817	101,692
	517,383	162,205
Listed on overseas stock exchanges:		
Fixed interest	307,651	72,763
Equities	120,907	91,034
	428,558	163,797
Short term deposits	91,625	164,987
	1,037,566	490,989

	2004 £000	2003 £000
7. Debtors		
Corporation tax	84,654	–
Group tax relief receivable	7,366	–
Interest and dividends receivable	14,768	3,050
Insurance policy claim receivable (notes 9 and 13)	18,643	326,538
Deferred taxation (note 11)	2,915	6,840
Other debtors and prepayments	7,766	21,925
	136,112	358,353

	2004 £000	2003 £000
8. Other claims and provisions		
Provision for amounts paid and payable under undertakings given to insolvent members (note 13)	132,816	75,541
Claims paid in respect of individual members	2,677	4,447
Release of provision against loans to syndicates	–	(319)
	135,493	79,669

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS continued

as at 31 December 2004

	2004 £000	2003 £000
9. Settlement of Central Fund arbitration dispute		
Insurance policy claim receivable written off (note 13)	324,582	–
Cancellation of premiums payable	(827)	–
	323,755	–

In 2002, insurers of the New Central Fund disputed their liability to meet the claims made under the policy. Lloyd's commenced arbitration proceedings on 2 April 2003 under the terms of the policy for recovery of the sums claimed from the insurers. As at 31 December 2004 Lloyd's considered it was entitled to claim £477m under the policy in respect of cash calls made in 2002 and 2003. The insurers had paid £134m during 2002, subject to a reservation of their rights made by certain insurers in respect of these claims.

On 14 March 2005, Lloyd's reached a settlement with all of the insurers involved. The settlement provides that the insurers agree to pay total claims under the policy of £152m which includes amounts previously paid under the policy terms.

The net effect of the settlement of the dispute on the financial statements as at 31 December 2004 has been to decrease the net assets of the Central Fund by £323.8m offset by a related tax credit of £97.1m.

	2004 £000	2003 £000
10. Interest payable and similar charges		
Interest payable on subordinated loan notes wholly repayable after more than five years	3,981	–
Amortisation of issue costs and unwinding of discount on issue of subordinated loan notes	65	–
	4,046	–
Unrealised exchange loss on retranslation of subordinated loan notes	2,630	–
	6,676	–

	New Central Fund 2004 £000	'Old' Central Fund 2004 £000	Total 2004 £000	Total 2003 £000
11. Taxation				
(a) Analysis of charge in year				
<i>Current tax:</i>				
UK corporation tax based on (deficit)/surplus for the year at 30% (2003: 30%)	62,009	–	62,009	(84,683)
Current year group relief	12,601	(1,326)	11,275	(3,659)
Adjustments in respect of previous years	3,329	–	3,329	(533)
Total current tax (note 11(b))	77,939	(1,326)	76,613	(88,875)
<i>Deferred tax:</i>				
Origination and reversal of timing differences	(3,925)	–	(3,925)	(6,875)
Taxation credit/(charge)	74,014	(1,326)	72,688	(95,750)
(b) Factors affecting tax charge for year				
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%				
The differences are explained below:				
(Deficit)/surplus before taxation	(232,998)	5,055	(227,943)	330,558
(Deficit)/surplus before taxation multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	69,899	(1,517)	68,382	(99,167)
Non-taxable income	4,711	191	4,902	7,506
Utilisation of tax losses	–	–	–	3,319
Adjustments in respect of previous years	3,329	–	3,329	(533)
Current tax credit/(charge) for year (note 11(a))	77,939	(1,326)	76,613	(88,875)
(c) Provision for deferred tax				
Revaluation of investments	2,915	–	2,915	6,840
Deferred tax asset at 31 December	2,915	–	2,915	6,840
At 1 January	6,840	–	6,840	13,715
Deferred tax charge on revaluation of investments (note 11(a))	(3,925)	–	(3,925)	(6,875)
At 31 December (note 7)	2,915	–	2,915	6,840
12. Creditors			2004 £000	2003 £000
Corporation tax			–	37,170
Group tax relief payable			–	3,659
Amounts due to group undertakings			4,007	4,007
Other creditors and accruals			9,871	11,945
Income Support Schemes			1,702	1,735
Interest payable on subordinated loan notes			3,981	–
			19,561	58,516

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 the Council of Lloyd's for 2005. These amounts are provided for at 31 December 2004.

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS continued

as at 31 December 2004

13. Provision for undertakings given to insolvent members

The Council of Lloyd's has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. Although the supporting undertaking is a legally enforceable commitment, it is acknowledged that it is not practicable to estimate a value to that commitment. Furthermore, whilst the Society is solvent, the likelihood of the supporting undertaking being called upon is extremely remote.

The aggregate amount of all undertakings (excluding the supporting commitment) given by the Council at 31 December 2004 was £925m of which £833m had been paid by that date.

Undertakings	2004 £000	2004 £000	2003 £000	2003 £000
Provisions for amounts payable at 1 January		79,829		85,110
Undertakings given in the year		149,486		185,856
Analysis of paid undertakings by member:				
Blodget and Hazard Limited	(3,698)		(3,160)	
Cotesworth Capital Limited (in provisional liquidation)	(12,827)		(50,920)	
Crowe Corporate Capital Limited	(1,208)		(2,284)	
Crowe Dedicated Limited	(8,568)		(29,462)	
Dreason Underwriting Limited	(699)		–	
Duncanson & Holt Underwriters Limited	(23,193)		(51,921)	
Grenville Underwriting I/II/III Limited	(23,512)		–	
Jago Capital Limited	(3,608)		–	
Margent Capital Management Limited (in provisional liquidation)	(539)		(500)	
Newmarket Corporate Member Limited (in provisional liquidation)	–		(19,580)	
North American London Underwriters Limited	(1,304)		(6,443)	
Riverside Corporate Underwriters Limited (in provisional liquidation)	(858)		(1,007)	
Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited	(50,000)		(15,903)	
Standfast Corporate Underwriters Limited*	(5,405)		(7,757)	
Winford Company Limited	(602)		–	
Other corporate members	(1,390)		(2,200)	
Paid during the year		(137,411)		(191,137)
Provision for amounts payable at 31 December		91,904		79,829

Paid undertakings are disclosed by corporate member where the amounts in any one year exceed £500,000. If below this amount members are grouped together.

* Standfast Corporate Underwriters Limited is owned by Standfast Holdings Limited which entered members voluntary liquidation in 2003. In accordance with Lloyd's Byelaws and definitions, two of the shareholders of Standfast Holdings Limited are controllers of Standfast Corporate Underwriters Limited and other Lloyd's corporate members. After the funds at Lloyd's of Standfast Corporate Underwriters Limited had been fully drawn down, one of those shareholders provided additional funds to meet a proportion of the cash calls due from Standfast Corporate Underwriters Limited. The other shareholder, Markel Corporation, has not provided any further funds.

13. Provision for undertakings given to insolvent members <small>continued</small>	2004 £000	2004 £000	2003 £000	2003 £000
Insurance policy claim receivable				
At 1 January		326,538		216,223
Undertakings given in the year	149,486		185,856	
Less: drawdowns made against undertakings during the year under the 2003 policy excess where not previously provided	–		(14,890)	
Less: drawdowns made against undertakings during year in excess of 2002 policy limits	–		(4,085)	
Less: drawdowns made against undertakings during year not subject to the insurance policy	(50,403)		–	
Less: balance of undertakings falling due after 31 December either not subject to the insurance policy or up to the amount of the insurance policy excess	(89,483)		(56,566)	
Recoveries made or receivable under the insurance policy	7,087		–	
		16,687		110,315
		343,225		326,538
Insurance policy claim receivable written off (note 9)		(324,582)		–
Insurance policy claim receivable at 31 December (note 7)		18,643		326,538
Charge to general fund account				
Drawdowns made against undertakings during the year under the 2003 policy excess where not previously provided		–		14,890
Drawdowns made against undertakings during the year in excess of 2002 policy limits		–		4,085
Drawdowns made against undertakings during year not subject to the insurance policy		50,403		–
Balance of undertakings falling due after 31 December either not subject to the insurance policy or under the Central Fund insurance policy excess		89,483		56,566
Less: recoveries made or receivable under the insurance policy		(7,087)		–
Drawdowns made that are not covered by undertakings		17		–
		132,816		75,541

14. Subordinated loan notes	2004 £000	2003 £000
Details of loans payable wholly or partly after more than five years:		
6.875% subordinated notes of £300m maturing 17 November 2025	300,000	–
5.625% subordinated notes of €300m maturing 17 November 2024	212,389	–
	512,389	–
Less: issue costs to be charged in future years (note 2G)	(3,722)	–
Less: discount on issue to be unwound in future years (note 2G)	(2,228)	–
	506,439	–

On 17 November 2004, the Society of Lloyd's issued two tranches of subordinated debt, a £300m tranche which carries a coupon of 6.875% (the 'Sterling Notes') and a €300m tranche which carries a coupon of 5.625% (the 'Euro notes' and together with the Sterling Notes, the 'Notes').

The Sterling Notes mature on 17 November 2025, however, the Society of Lloyd's may redeem them at 17 November 2015 and 17 November 2020. In the event that the Society does not redeem the Sterling Notes on 17 November 2015, the rate of interest payable will be the rate per annum which is the aggregate of the Gross Redemption Yield on the relevant Benchmark Gilt (a United Kingdom government security having a maturity date on or nearest to the next reset date) plus a margin of 3.07%.

The Euro Notes mature on 17 November 2024, however, the Society of Lloyd's may redeem them at 17 November 2014 or on any interest payment date thereafter. In the event that the Society does not redeem the Euro notes on 17 November 2014, the rate of interest payable will be three-month Euribor plus a margin of 2.72%.

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS continued

as at 31 December 2004

14. Subordinated loan notes continued

The Notes are subordinated obligations of the Society. Each tranche of the Notes will rank *pari passu* with the other in a winding-up of the Society of Lloyd's. Upon the occurrence of any winding-up proceedings of the Society, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Society, except for liabilities which rank equally with or junior to the Notes. Payments on the Notes will also be subordinated to certain payments which may be made out of central assets including payments made to discharge the liabilities of an insolvent member to any person (including any policyholders) arising out of or in connection with insurance business carried on at Lloyd's by that insolvent member and payments made in respect of the costs required by or under any insolvency procedure to which the Society or the Lloyd's market may be subject.

However, in the event of a winding-up of the Society, the claims of the holders of the Notes rank senior to the Society's obligations to members under the New Central Fund Syndicate Loans (which commenced on 1 April 2005) and also in priority to the distribution of any central assets to members of Lloyd's generally (other than payments made to members in their capacity as senior creditors of the Society).

	New Central Fund £000	'Old' Central Fund £000	Total £000
15. Total Fund balance			
Balance at 1 January 2004	674,889	36,156	711,045
(Decrease)/increase in general fund for the year	(158,984)	3,729	(155,255)
Balance at 31 December 2004	515,905	39,885	555,790

	2004 £000	2003 £000
16. Reconciliation of (deficit)/surplus on ordinary activities before finance to operating cash flows before claims paid and insurance recoveries		
Operating (deficit)/surplus	(257,110)	301,109
Undertakings given to insolvent members (note 13)	149,486	185,856
Decrease/(increase) in insurance claim receivable	307,895	(110,315)
Claims paid in respect of individual members	2,677	4,447
Decrease/(increase) in other debtors	14,159	(9,401)
(Gain)/loss on exchange	(253)	267
(Decrease)/increase in creditors	(2,826)	9,003
Net cash inflow from operating activities before claims paid and insurance recoveries	214,028	380,966

	2004 £000	2003 £000
17. Analysis of cash flows for headings netted in the cash flow statement		
Returns on investments and servicing of finance:		
Dividends and interest received	9,788	15,262
Net cash outflow from returns on investments and servicing of finance	9,788	15,262
Management of liquid resources:		
Purchase of fixed interest securities and short term deposits	(782,561)	(128,371)
Purchase of equities	(51,859)	(55,883)
Sale of fixed interest securities and short term deposits	302,180	48,135
Net cash outflow from management of liquid resources	(532,240)	(136,119)
Financing:		
Issue of 6.875% subordinated note of £300m maturing 17 November 2025, net of issue costs	296,904	-
Issue of 5.625% subordinated notes of €300m maturing 17 November 2024, net of issue costs	207,559	-
Net cash inflow from financing	504,463	-

Included within liquid resources are term deposits of less than one year, government securities, corporate bonds and equity stocks.

	At 01.01.04 £000	Cash flow £000	Loan note issue and discount costs £000	Other movements £000	At 31.12.04 £000
18. Analysis of net funds					
Cash at bank	48	(285)	–	253	16
Debt due after one year	–	(504,463)	654	(2,630)	(506,439)
Current investments	490,989	532,240	–	14,337	1,037,566
	491,037	27,492	654	11,960	531,143

Other movements include realised and unrealised exchange differences arising on the revaluation of foreign currency operating cash flows, investments and borrowings.

19. Financial assets and liabilities

Financial instrument risk management

The Central Fund's principal financial instruments comprise cash and liquid resources, investments, provisions, subordinated loan notes and items that arise directly from operations such as trade debtors and creditors.

The Corporation's treasury operations are managed within the formally defined policies which are reviewed regularly by the Lloyd's Investment Committee. Policies for managing these risks of the Central Fund are summarised below.

Interest rate risk

During the year, the Society issued capital market debt of £300m and €300m at fixed rates of interest. The subordinated loan notes have call options attached at different reset dates. Depending on whether the Society calls the notes on the first reset date will determine the rates of interest payable (see note 14). Interest rate risk in respect of this exposure is managed by investing assets within Lloyd's Central Fund to immunise the liability represented by the debt instrument.

Liquidity risk

The value and term of assets are carefully monitored against those of the Central Fund's liabilities. The Central Fund aims to maintain sufficient liquid assets to meet liabilities as they fall due. However, the Central Fund assets may be supplemented by an extra 3% of members' current overall premium limits callable from members' premiums trust funds (2003: 3%). This facility is available to meet unforeseen short term requirements and is renewed annually.

Foreign currency risk

The Central Fund enters into foreign exchange transactions in response to the foreign currency requirements.

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.

Financial assets and liabilities held

Other than short term debtors and creditors, the following material financial assets and liabilities were held at 31 December 2004:

	2004 Book value £000	2004 Fair value £000	2003 Book value £000	2003 Fair value £000
Primary financial instruments held or issued to finance operations				
Investments	1,037,566	1,037,566	490,989	490,989
Cash and deposits	16	16	48	48
Financial assets	1,037,582	1,037,582	491,037	491,037
Subordinated loan notes	(506,439)	(506,439)	–	–
Undertakings given to insolvent members	(91,904)	(91,904)	(79,829)	(79,829)
Financial liabilities	(598,343)	(598,343)	(79,829)	(79,829)
Net	439,239	439,239	411,208	411,208

The terms of the subordinated loan notes are set out in note 14.

The provisions for liabilities and charges are interest free and denominated in sterling.

LLOYD'S CENTRAL FUND NOTES TO THE FINANCIAL STATEMENTS continued

as at 31 December 2004

19. Financial assets and liabilities continued

The currency and interest rate profiles of the financial assets and liabilities were as follows:

	Financial assets				Financial liabilities				Net £000
	2004 Fixed rate £000	2004 Floating rate £000	2004 Interest free £000	2004 Total £000	2004 Fixed rate £000	2004 Floating rate £000	2004 Interest free £000	2004 Total £000	
Sterling	380,566	309,677	–	690,243	(296,581)	–	(91,904)	(388,485)	301,758
United States dollar	79,507	34,848	–	114,355	–	–	–	–	114,355
Euro	228,144	4,840	–	232,984	(209,858)	–	–	(209,858)	23,126
	688,217	349,365	–	1,037,582	(506,439)	–	(91,904)	(598,343)	439,239
	2003 £000	2003 £000	2003 £000	2003 £000	2003 £000	2003 £000	2003 £000	2003 £000	Net £000
Sterling	60,512	352,925	–	413,437	–	–	(79,829)	(79,829)	333,608
United States dollar	51,846	3,757	–	55,603	–	–	–	–	55,603
Euro	20,917	1,080	–	21,997	–	–	–	–	21,997
	133,275	357,762	–	491,037	–	–	(79,829)	(79,829)	411,208

The average interest rate of the sterling fixed interest securities is 5.43% (2003: 6.18%) and the weighted average period for which the interest rate is fixed is 9.3 years (2003: 5.6 years). The average interest rate of the United States dollar fixed interest securities is 4.87% (2003: 6.06%) and the weighted average period for which the interest rate is fixed is 6.0 years (2003: 5.7 years). The average rate of the Euro fixed interest securities is 4.39% (2003: 4.87%) and the weighted average period for which the interest rate is fixed is 9.1 years (2003: 5.0 years).

Interest free financial liabilities represent undertakings given to insolvent members (see note 13).

Borrowing facilities

There are no undrawn committed borrowing facilities as at 31 December 2004. The same applied as at 31 December 2003.

20. Tutelle Limited

In 1996 the Council set aside, under a Lloyd's special account, £20m of the 'Old' Central Fund to secure the Society's obligations under staff indemnities and certain indemnities which have been given by Lloyd's to certain individuals and advisers in respect of the *Reconstruction and Renewal* plan. These include members of the Reserve Group, directors and officers of Equitas, members of the Council, Lloyd's Regulatory Board, Lloyd's Market Board (the latter two boards ceased during 2002) and of their respective sub-committees 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 2004, will be reviewed again in June 2006. 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 'Old' Central Fund.

21. 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 'Old' 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.