LLOYD'S

Interim Report 2018

Six months ended 30 June 2018

2018 At a Glance

Financial highlights

- Lloyd's made a profit of £588m (2017: £1,216m)
- Combined ratio of 95.5% (2017: 96.9%)*
- Gross written premium of £19,338m (2017: £18,881m)
- Capital, reserves and subordinated loan notes stand at £29,045m (2017: £27,979m)

Gross written premium

£m	Half year	Full year
2014	14,481	25,259
2015	15,513	26,690
2016	16,307	29,862
2017	18,881	33,591
2018	**19,338**	

Result before tax

£m	Half year	Full year
2014	1,652	3,016
2015	1,194	2,122
2016	1,461	2,107
2017	1,216	(2,001)
2018	**588**	

Capital, reserves and subordinated debt and securities

£m	Half year	Full year
2014	20,780	23,413
2015	22,844	25,098
2016	26,617	28,597
2017	27,979	27,560
2018	**29,045**	

Central assets

£m	Half year	Full year
2014	2,447	2,578
2015	2,655	2,645
2016	2,745	2,879
2017	2,905	2,981
2018	**3,115**	

Return on capital annualised*

%	Half year	Full year
2014	16.3	14.1
2015	10.7	9.1
2016	11.7	8.1
2017	8.9	(7.3)
2018	**4.3**	

Combined ratio*

%	Half year	Full year
2014	87.4	88.4
2015	89.5	90.0
2016	98.0	97.9
2017	96.9	114.0
2018	**95.5**	

The interim pro forma financial statements (interim PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The interim PFFS include the aggregate of syndicate results, members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements.

*The return on capital and the combined ratio are metrics which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used) are Alternative Performance Measures (APMs), with further information available on page 59.

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Introduction

Statement from the Chief Executive

The Lloyd's market returned to profit in the first six months of 2018, following the severe catastrophe experience in 2017. While the underlying numbers show some signs of improvement, the result also highlights ongoing challenges that are actively being addressed.

Lloyd's aggregated market profit was £0.6bn for the first six months of 2018 (June 2017: £1.2bn). The decrease on the prior half year was driven by a comparatively low investment return of £0.2bn (June 2017: £1.0bn) and is consistent with the low returns seen across most asset classes over the period.

Lloyd's capital position is at its strongest ever with net resources totalling £29.0bn (June 2017: £28.0bn, December 2017: £27.6bn) and Lloyd's strong and secure financial position is underscored by our excellent ratings which were recently reaffirmed at A (Excellent) from A.M. Best, A+ (Strong) from Standard & Poor's and AA- (Very Strong) from Fitch.

We continue to focus on improving the Lloyd's market's long-term performance by taking positive action to address areas of the market that are underperforming. While much of the Lloyd's market is profitable, some syndicates and certain lines of business have a disproportionate negative impact on the market's profitability. Syndicates are being asked to conduct in-depth reviews of the worst performing 10% of their portfolios, along with all loss-making lines, and submit their relevant remediation plans for approval as part of the 2019 business planning process. The review process is robust and well-governed and has been undertaken by an experienced team at Lloyd's. We are working closely with syndicates to ensure policyholders are protected.

These efforts have partly contributed to an improvement in the underwriting result of £0.5bn for the first six months of 2018 (June 2017: £0.4bn). Although this reflects the progress that has been achieved, it should not mask the importance of continued, concentrated market-wide efforts to deliver long-term sustainable profit through the very challenging market conditions that are likely to persist for some time yet.

Despite the difficult business environment, the combined ratio improved to 95.5% (June 2017: 96.9%), supported by a benign loss period and prior year releases. A moderate uptick in gross written premiums, totalling £19.3bn for the first six months of 2018 (June 2017: £18.9bn), is driven by sustainable improvements in pricing and growth in some profitable lines.

Lloyd's is focused on the future, with a strategy that is under constant review to respond to the challenges and opportunities facing the market. Throughout 2018 our key priorities are improving underwriting performance, reducing expenses, and enhancing access to Lloyd's through technology – supporting our digital evolution.

In July we launched the Lloyd's Bridge pilot, an online portal that quickly and easily matches new binder or coverholder business in both established and high growth markets with Lloyd's underwriters and brokers. Later this year we will launch the Lloyd's Workbench pilot, an underwriting system where coverholders and syndicates can more efficiently manage risk transfer under a binder.

The Lloyd's Lab, our new innovation accelerator launched in September, is helping to build a more sustainable and competitive insurance market by providing a dynamic environment where entrepreneurs can come in with fresh ideas to help Lloyd's redefine how we use technology to better serve our customers around the world.

In March we announced a mandate for electronic placement of risks to accelerate the market's transformation from paper to digital and ensure the market realises the benefits of electronic placement, in Q2 Lloyd's exceeded its target of 10%, with syndicates accepting 16.3% of in scope risks electronically. We expect to see higher rates of adoption as targets increase, which will further improve efficiency, reduce back office costs, and most importantly enhance customer service.

The Lloyd's Corporation has worked tirelessly to secure the market's access to the EU27 countries outside of any UK Government deal that is secured upon the UK's exit from the European Union. The structures we are putting in place provide the market with an opportunity to enhance its profile and provide increased customer choice within the EU. Our new insurance subsidiary in Brussels received regulatory approval from the National Bank of Belgium in May and will be operational to write business in the European Economic Area from 1 January 2019.

I would like to thank the Lloyd's market for their engagement and support as we work together to close the performance gap, establish Lloyd's Brussels, and launch innovative solutions that will ensure we are well placed to thrive in a digital world. These actions demonstrate the scale of transformation already underway, and the Corporation's commitment to implementing initiatives that will deliver long-term benefits for all Lloyd's market participants, and safeguard the future of the Lloyd's market.

Lloyd's continues to lead the world in delivering innovative products and services to customers by providing essential, complex and critical coverage that is so needed to enable human progress. The Corporation will continue to look at how we can make the Lloyd's platform more competitive, and to ensure that it can grow profitably in the future our current strategic focus is:

- **Capital:** maintaining Lloyd's capital advantages, while making it more attractive to capital providers by simplifying the overall market structure
- **Customers and Distribution:** exploring ways customers can more easily and cheaply access the market
- **Market Oversight:** continuing to work with the market to close the performance gap and deliver superior operating returns
- **Operations and Services:** improving Lloyd's infrastructure so that it can efficiently support the market with digital platforms

Finally, I announced in June that after careful consideration I have decided to step down after five years leading Lloyd's. It is my honour and privilege to lead one of the most respected and trusted insurance brands in the world and I'm proud of the part I have played in securing Lloyd's future. The progress we have made together with true collaboration across the entire London Market towards modernisation and digital transformation is profound. I'm also proud of the expanded access to new markets that Lloyd's now has, and the progress that has been made towards building a more diverse and inclusive market. I'd like to take this opportunity to thank everyone for the support they have given me during my five years as CEO.

The world trusts Lloyd's to be there when it matters the most and, with all the progress that has been made during my time here, I know I will leave Lloyd's well placed for the years to come.

Inga Beale DBE
Chief Executive Officer

Strategy update

Purpose

The role of insurance is to transfer risk, providing individuals and organisations with the confidence to undertake endeavours that might otherwise be avoided. The Lloyd's market achieves this by offering insurance products for its customers that allow them to operate and grow their business in the knowledge that they are protected from the uncertainties of the world. In this way, Lloyd's enables human progress.

The Lloyd's market enables its policyholders, whether individuals, companies or governments, to take risks with the confidence that their insurance policies have sound financial backing, and that their claims will be dealt with fairly and quickly.

The Lloyd's market is supported by the Corporation whose purpose is to create and maintain a competitive, innovative and secure market. Its dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term.

Areas of focus

The Corporation has prioritised four areas to respond to some immediate challenges that the market is facing today:

- **Market Oversight:** improving market performance and making oversight more risk based;
- **Customers and Distribution:** making Lloyd's new subsidiary in Brussels operational by the end of 2018; launching pilot initiatives to make it cheaper and easier for customers to reach Lloyd's; and developing ways to encourage innovation across the Lloyd's market;
- **Operations and Services:** finishing delivery of phase 1 of the London Market Target Operating Model (LM TOM) and encouraging adoption of services by the market that yield business process efficiencies; and
- **Capital:** maintaining a secure and efficient capital base with strong financial strength ratings.

The Corporation will build on this work and is planning the next phases to ensure that the Lloyd's market continues to be competitive in the future.

Strategic priority	Progress	Next steps
Market Oversight The Corporation monitors individual managing agents and syndicates, and aggregate market exposures, to improve performance at Lloyd's and to help ensure all valid claims will be paid. The Corporation does this through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.	The Corporation has made further steps towards a truly risk-based approach by continuing to reduce the number of oversight tasks while increasing the impact of its managing agent oversight activity. It wants to enable the market to thrive and achieve superior operating returns through risk-based oversight. Long-term unprofitable areas need to be addressed and the Corporation is helping managing agents close the performance gap by identifying the worst performing syndicates and classes, and by ensuring that they either have viable remediation plans in place to return to profit or do not continue to underwrite. The Corporation is offering differentiated oversight, supporting innovative growth and taking decisive action on loss-making areas. It expects the market to respond to challenging market conditions by managing expenses and presenting realistic plans for 2019.	The Corporation wants the Lloyd's market to have efficient, competitive models for underwriting large, specialist and commoditised risks and it will work with the market to develop them.
Customers and Distribution Lloyd's will build on its reputation for meeting customers' various needs through innovation, new technology and more efficient distribution. Lloyd's connects to customers in more than 200 territories through its distribution network and international hubs, supported by a global network of representatives with extensive local knowledge.	**Lloyd's Brussels:** Since the UK voted to leave the European Union, the Corporation has sought to provide a solution to retain a comparable level of access for the Lloyd's market to that enjoyed today. The structures being put in place for Brexit also provide the market with an opportunity to enhance its profile and customer choice in the EU. The new insurance subsidiary, Lloyd's Brussels received regulatory approval from the National Bank of Belgium in May. It will be operational to write business in the European Economic Area from 1 January 2019. **Coverholder pilots:** Lloyd's Bridge is an online platform matching Lloyd's syndicates with insurance businesses to enable them to write policies as a coverholder. The pilot launched in July in three countries: the UK, Australia and New Zealand. If successful, it will be rolled out more widely in 2019. Lloyd's Coverholder Workbench is an underwriting system through which coverholders can input risks under a binder with improved controls and information for the managing agent. The pilot is due to launch shortly with three coverholders in the UK and Australia and, if successful, will be rolled out more widely in 2019. **Encouraging innovation:** Lloyd's Lab launched in September and the first cohort of teams will start on 8 October. There will be four cohorts over the next two years. Lloyd's Lab aims to enable new ideas to be tested in a fast-track, fast-fail environment. It will be a centre of InsurTech excellence to attract creative talent across the market and support innovation in an increasingly digital, data-driven world. Selected start-ups will be given the opportunity to work with Lloyd's market experts to shape the future of Lloyd's.	The Corporation wants Lloyd's to be easily accessible to commercial customers from around the world, meeting their insurance needs. Lloyd's has a global customer base. The pilot initiatives are a first step in expanding the market's distribution options and making it easier for customers. The Corporation continues to look at options that offer easier and cheaper ways for customers to access the market.
Operations and Services Centrally provided services means the Lloyd's market benefits from economies of scale, while a single infrastructure supports its efficient operation.	**The London Market Target Operating Model:** LM TOM was developed to make the London Market more competitive, more efficient and more attractive around the world. It has delivered multiple solutions and has made more progress than any previous modernisation initiative, and is now focusing on adoption. In March Lloyd's announced targets for electronic placement of risks. Syndicates accepted 16.3% of in-scope risks through electronic placement in Q2 with 63% of syndicates meeting or exceeding the Q2 mandate target of 10%. 24% did not reach the target and 13% reported that they had no in-scope risks in the period. More syndicates are expected to meet or exceed the Q4 target of 30%. The new solution for submission, access and transformation of delegated authority bordereaux, which makes reporting by coverholders to the market easier and more efficient, is on track for launch in September 2018. This solution is important to the success of Lloyd's Brussels. Through the LM TOM claims workstream the London Market has defined the claims service and quality of the claims product needed to strengthen its position. Claims and Straight Through Processing are the focus of the final phase of LM TOM.	The Corporation wants its infrastructure, underpinned by data, to efficiently support the market. The Corporation is considering how its infrastructure can best meet this ambition.
Capital Lloyd's capital framework, under which insurance commitments are underpinned by a Central Fund, is efficient and flexible. It enables a single market financial strength rating for all policies issued from Lloyd's – from Standard & Poor's, Fitch Ratings and A.M. Best.	While 2017 was one of the largest loss-making years for the market in recent times, it is a testament to Lloyd's strong capital framework that the losses did not result in any calls on the Central Fund. All three Lloyd's financial strength ratings were reaffirmed by the rating agencies. Building on Lloyd's strong capital base, the Corporation is considering a number of options for further enhancing central resources.	The Corporation wants a market accessible to a broad range of capital providers for trading insurance risk. Lloyd's capital framework has a number of advantages for capital providers but there are some constraints. The Corporation is looking at options for transforming the capital framework.

Market commentary

The Lloyd's market writes specialist property, casualty and other specialty insurance and reinsurance business in over 200 countries and territories worldwide. The pre-tax profit for the first six months of 2018 is £0.6bn (June 2017: £1.2bn), with a combined ratio of 95.5% (June 2017: 96.9%) and this represents an annualised return on capital of 4.3% (June 2017: 8.9%). The underwriting contribution to profit improved to £0.5bn (June 2017: £0.4bn), whilst there was a decline in investment return* to £0.2bn or 0.3% (June 2017: £1.0bn, 1.5%).

Underwriting review

Gross written premiums for the six months to June 2018 were £19.3bn (June 2017: £18.9bn) representing an increase of 2.4%. After adjusting for the impact of foreign exchange rate movements the underlying increase in gross written premium was 8.4%, driven by improvements in pricing on renewal business and growth in volume from new and established syndicates.

Growth has been driven primarily by Property insurance (notably US binding authorities); Proportional Treaty Reinsurance lines (notably Agriculture and US Catastrophe Excess of Loss); Casualty (notably Cyber); and Specialty (notably Political risks). Much of this growth is in new products and from traditional distribution channels (US surplus lines). In other major lines of business such as Marine and Aviation, premium has been more stable or contracting. While market conditions remain competitive across all major lines, pricing is generally more stable with increases evident in 2017 hurricane-impacted lines of business. The aggregate risk adjusted rate on renewal business increased 3.1% (June 2017: 2.3%) at the half year stage.

The Lloyd's market's accident year ratio* for the six months to June 2018 was 99.3% (June 2017: 98.5%). This slight increase is primarily due to an increase in attritional losses offset by a reduction in major claims. Major claims added 0.6% to the combined ratio for the first half of 2018 compared with 1.9% in the equivalent period last year.

Prior year releases for the period were £0.5bn (June 2017: £0.2bn), reducing the overall combined ratio by 3.8% (June 2017: 1.6%). Actual claims development was better than the previous year, one factor being favourable development in catastrophe claims.

While the first six months have benefited from the low incidence of major claims, price and trading competition in nearly all lines of business and in most markets continues to fuel pressure on attritional loss ratios. There remains considerable economic as well as political uncertainty at a global level which will continue to influence risk management and risk protection behaviour.

The capital base remains in a strong position with net resources of £29.0bn, an increase on the 2017 year end position of £27.6bn. The central and market-wide solvency ratios are above risk appetite at 218% and 156% respectively (December 2017: 215% and 144%). The improvement in the market-wide solvency ratio is driven by the increased proportion of cash and securities within members' funds at Lloyd's, reducing the level of ineligible surplus capital arising from the use of letters of credit.

Investment review

Investment return was relatively weak in the first six months of 2018, particularly by comparison to the previous year. Whilst the economic backdrop was broadly positive, investor sentiment reflected renewed caution and volatility peaked driving a sharp fall in risk asset pricing early in the period. US / UK based equities managed a full recovery generating positive returns in the period, but the majority of other financial assets posted losses. The expectation of higher interest rates and a moderate widening of credit spreads negatively impacted returns on investment grade bonds and small losses were generated. The higher prevailing yield available on US cash and other money market instruments generated income helping to support investment return and a small profit was generated in aggregate.

* The accident year ratio and the investment return are metrics which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used) are Alternative Performance Measures (APMs), with further information available on page 59.

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Market Results

Statement of Council's Responsibilities and Lloyd's Interim Report

Statement of Council's responsibilities

The interim pro forma financial statements (interim PFFS) are prepared so that the financial results of Lloyd's and its members taken together, and their net assets, can be compared as closely as possible with general insurance companies.

The Council of Lloyd's is responsible for the preparation and approval of the interim PFFS.

The maintenance and integrity of the Lloyd's website is the responsibility of the Council of Lloyd's; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation of financial statements may differ from legislation in other jurisdictions.

The Lloyd's Interim Report presents the financial results of the Society of Lloyd's and its members. Lloyd's is not an insurance company. It is a Society of members, both corporate and individual, which underwrite insurance via syndicates. These syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account. In view of Lloyd's unique structure, the Interim Report includes two sets of financial statements.

Interim pro forma financial statements

The interim PFFS include the interim results of the syndicates as reported in the syndicate interim returns, members' funds at Lloyd's (FAL) and the Society of Lloyd's Group interim financial statements (as below).

Society of Lloyd's Group interim financial statements

The Group interim financial statements of the Society of Lloyd's (the "Society") comprise the Group interim financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Market Results

Pro Forma Profit and Loss Account

(For the six months ended 30 June 2018)

		Six months ended 30 June 2018		Six months ended 30 June 2017		Full year 2017	
Technical account	Note	**£m**	**£m**	£m	£m	£m	£m
Gross written premiums	8	**19,338**		18,881		33,591	
Outward reinsurance premiums		**(6,092)**		(5,412)		(8,722)	
Premiums written, net of reinsurance			**13,246**		13,469		24,869
Change in the gross provision for unearned premiums		**(3,190)**		(3, 291)		(847)	
Change in the provision for unearned premiums, reinsurers' share		**1,930**		1,803		476	
			(1,260)		(1,488)		(371)
Earned premiums, net of reinsurance			**11,986**		11,981		24,498
Allocated investment return transferred from the non-technical account			**68**		490		732
			12,054		12,471		25,230
Claims paid							
Gross amount		**9,942**		8,183		18,292	
Reinsurers' share		**(2,834)**		(1,654)		(3,634)	
			7,108		6,529		14,658
Change in provision for claims							
Gross amount		**(782)**		804		9,768	
Reinsurers' share		**412**		(423)		(6,176)	
			(370)		381		3,592
Claims incurred, net of reinsurance	8		**6,738**		6,910		18,250
Net operating expenses	8, 9		**4,707**		4,705		9,669
Balance on the technical account for general business			**609**		856		(2,689)
Non-technical account							
Balance on the technical account for general business			**609**		856		(2,689)
Investment return on syndicate assets		**71**		616		907	
Notional investment return on members' funds at Lloyd's	5	**143**		329		722	
Investment return on Society assets		**(10)**		90		171	
		204		1,035		1,800	
Allocated investment return transferred to the technical account		**(68)**		(490)		(732)	
			136		545		1,068
Profit/(loss) on exchange			**–**		(28)		(62)
Other income			**22**		33		42
Other expenses			**(179)**		(190)		(360)
Result for the financial period before tax	7		**588**		1,216		(2,001)

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the six months ended 30 June 2018)

Statement of comprehensive income	Note	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 £m
Result for the financial period	7	**588**	1,216	(2,001)
Currency translation differences		**(22)**	(55)	(69)
Other comprehensive gains/losses in the syndicate annual accounts		**(8)**	1	(2)
Remeasurement of losses on pension assets/liabilities in the Society accounts		**17**	22	41
Total comprehensive income for the financial period		**575**	1,184	(2,031)

Market Results

Pro Forma Balance Sheet

(At 30 June 2018)

		30 June 2018		30 June 2017		31 December 2017	
	Note	£m	£m	£m	£m	£m	£m
Investments							
Financial investments	10		**57,375**		53,507		55,765
Deposits with ceding undertakings			**33**		19		18
Reinsurers' share of technical provisions							
Provision for unearned premiums		**5,431**		4,422		3,372	
Claims outstanding		**16,526**		11,963		16,811	
			21,957		16,385		20,183
Debtors							
Debtors arising out of direct insurance operations		**10,160**		9,893		8,882	
Debtors arising out of reinsurance operations		**8,161**		6,718		5,921	
Other debtors		**932**		1,095		734	
			19,253		17,706		15,537
Other assets							
Tangible assets		**29**		31		31	
Cash at bank and in hand	11	**11,550**		12,434		12,137	
Other		**112**		89		72	
			11,691		12,554		12,240
Prepayments and accrued income							
Accrued interest and rent		**101**		101		104	
Deferred acquisition costs		**4,965**		4,852		4,304	
Other prepayments and accrued income		**339**		324		245	
			5,405		5,277		4,653
Total assets			**115,714**		105,448		108,396
Capital, reserves, subordinated debt and securities							
Members' funds at Lloyd's	5	**25,812**		22,291		24,579	
Members' balances	12	**118**		2,783		–	
Members' assets (held severally)			**25,930**		25,074		24,579
Central reserves (mutual assets)			**2,322**		2,113		2,188
	7		**28,252**		27,187		26,767
Subordinated debt	2		**793**		792		793
Total capital, reserves, subordinated debt and securities			**29,045**		27,979		27,560
Technical provisions							
Provision for unearned premiums		**19,869**		19,212		16,377	
Claims outstanding		**54,477**		47,373		54,893	
			74,346		66,585		71,270
Deposits received from reinsurers			**201**		80		111
Creditors							
Creditors arising out of direct insurance operations		**1,190**		776		955	
Creditors arising out of reinsurance operations		**7,784**		6,821		5,929	
Other creditors including taxation		**2,173**		2,352		1,781	
			11,147		9,949		8,665
Accruals and deferred income			**975**		855		790
Total liabilities			**115,714**		105,448		108,396

Approved by the Council on 20 September 2018 signed on its behalf by

Bruce Carnegie-Brown Chairman **Inga Beale** Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the six months ended 30 June 2018)

	Note	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 £m
Result for the financial period before tax		**588**	1,216	(2,001)
Increase/(decrease) in gross technical provisions		**2,241**	2,650	7,714
(Increase)/decrease in reinsurers' share of gross technical provisions		**(1,460)**	(2,021)	(5,930)
(Increase)/decrease in debtors		**(3,934)**	(3,438)	(1,920)
Increase/(decrease) in creditors		**2,285**	2,349	1,596
Movement in other assets/liabilities		**(387)**	(160)	66
Investment return		**(204)**	(1,035)	(1,800)
Depreciation		**3**	3	8
Tax paid		**(6)**	(34)	(51)
Foreign exchange		**(304)**	611	1,057
Other		**(32)**	(5)	(6)
Net cash flows from operating activities		**(1,210)**	136	(1,267)
Investing activities				
Purchase of equity and debt instruments		**(23,255)**	(20,477)	(38,462)
Sale of equity and debt instruments		**24,909**	22,094	39,631
Purchase of derivatives		**(24)**	(94)	(69)
Sale of derivatives		**39**	52	28
Investment income received		**336**	414	801
Other		**(373)**	(6)	171
Net cash flows from investing activities		**1,632**	1,983	2,100
Financing activities				
Net profits paid to members		**(988)**	(2,726)	(1,711)
Net capital transferred into/(out of) syndicate premium trust funds		**749**	741	774
Interest paid on subordinated notes		**(15)**	(29)	(53)
Issue of subordinated notes		**–**	298	298
Redemption of subordinated notes		**–**	(392)	(392)
Net movement in members' funds at Lloyd's		**(997)**	(174)	(123)
Other		**81**	43	21
Net cash flows from financing activities		**(1,170)**	(2,239)	(1,186)
Net decrease in cash and cash equivalents		**(748)**	(120)	(353)
Cash and cash equivalents at 1 January		**14,113**	14,631	14,631
Exchange differences on cash and cash equivalents		**(6)**	(32)	(165)
Cash and cash equivalents at 30 June/31 December	13	**13,359**	14,479	14,113

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

1. The Interim Pro Forma Financial Statements

The interim pro forma financial statements (interim PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with those of general insurance companies.

2. Basis of preparation

General

The interim PFFS have been prepared by aggregating financial information reported by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the interim financial statements of the Society of Lloyd's on pages 29 to 57. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the interim PFFS.

The syndicate returns have not been audited but have been subject to review by the syndicate auditors. In their reports on the syndicate returns, syndicate auditors are required to state whether they are aware of any material modifications that should be made to the financial information presented in those returns.

The profit and loss account in the interim PFFS aggregates the syndicate results, the notional investment return on FAL and the results of the Society of Lloyd's. The balance sheet in the interim PFFS aggregates the assets and liabilities held at syndicate level, members' assets held as FAL and the central resources of the Society.

The interim PFFS have, where practicable, been prepared in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). In preparing the interim PFFS, note disclosures have been included for those areas the Council consider material to enable the interim PFFS to depict a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies, with the exception of the following items:

- Use of the aggregation basis to prepare the interim PFFS;
- Notional investment return on members' funds at Lloyd's;
- The Statement of Changes in Equity;
- Taxation; and
- Related party transactions.

(a) Aggregation

The interim PFFS have not been prepared in accordance with full consolidation principles and do not present a consolidated view of the results of the Lloyd's business taken as a single entity. However, the interim PFFS may be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

The syndicates' financial information included in the interim PFFS has been prepared in accordance with the recognition and measurement requirements of UK GAAP by reference to the accounting policies which are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents, no adjustments are made to align the bases of recognition and measurement in the interim PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances except for those relating to inter-syndicate loans and Special Purpose Arrangements (SPA). Transactions between syndicates and the Society of Lloyd's are eliminated in the interim PFFS. These adjustments are described below:

Inter-syndicate loans

The syndicate returns report debtor and creditor balances for inter-syndicate loans totalling £153m (June 2017: £89m, December 2017: £70m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the interim PFFS.

Special Purpose Arrangements (SPA)

Due to the nature of SPA, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPA. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the interim PFFS with a more meaningful presentation of the market's figures, all the reinsurance transactions of the SPA have been eliminated. The key impact of this elimination is that gross written premium is reduced by £388m (June 2017: £401m, December 2017: £589m). The elimination does not affect the interim PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society financial statements.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

2. Basis of preparation continued

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and at the balance sheet date will report the outstanding liability within members' balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society financial statements.

(b) Notional investment return on members' funds at Lloyd's (FAL)

A notional investment return on FAL has been estimated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. Where Lloyd's is the investment manager for FAL, the actual return achieved has been included. For other assets the notional investment return, net of management fees, is estimated on the average value of FAL during the year, based on yields from indices for each type of asset held. The typical investment return on bank deposits has been applied to FAL provided as letters of credit or bank guarantees. The actual return achieved on FAL investments will differ from the notional return due to individual stocks held, daily cash flows and transactional charges. Notional investment return on FAL is reported in the non-technical account.

Due to the estimation of the notional investment return, movements in FAL recorded within the financing section of the Statement of Cash Flows is comprised of both cash and non-cash activity.

(c) Statement of changes in equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 12, which, along with the Society's interim Group statement of changes in equity (on page 32), represents the changes in equity of the other components of the interim PFFS.

(d) Taxation

The interim PFFS report the market's result before tax. Members are directly responsible for tax payable on their syndicate results and investment income on FAL. For consistency, the results of the Society are also included pre-tax in the profit and loss account. The balance sheet in the Society interim financial statements includes the Society's own tax provision balances.

(e) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market and therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the interim PFFS is not possible. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties.

Members' funds at Lloyd's (FAL)

FAL comprise the capital provided by members, which is generally held centrally, to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has, therefore, been included in the pro forma balance sheet. FAL is available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable and may include letters of credit and bank and other guarantees.

The total resources, including FAL, for members writing ongoing insurance must be at least equivalent to the aggregate of the member's Economic Capital Assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Solvency Capital Requirement to ultimate capital setting methodology.

Subordinated debt and securities

In accordance with the terms of the Society's subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves, subordinated debt and securities' in the pro forma balance sheet. Note 11 to the Society interim financial statements on page 55 provides additional information.

Society of Lloyd's interim financial statements

The interim PFFS include the results and net assets reported in the interim financial statements of the Society of Lloyd's prepared in accordance with UK GAAP, comprising the interim financial statements of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

3. Accounting policies notes

a. Syndicate returns

The syndicate level information within the interim PFFS has been prepared in accordance with the recognition and measurement requirements of FRS 102 and FRS 103. These accounting policies are consistent with those adopted in the PFFS in 2017.

b. Members' funds at Lloyd's (FAL)

FAL is valued in accordance with their market value at the period end, and using period end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

As disclosed in the basis of preparation, a notional investment return on FAL is estimated, which is recognised in the non-technical account.

Members that only participate in one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust fund. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account. These policies are consistent with those adopted in the 2017 Annual Report.

c. Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's interim financial statements are set out on pages 34 to 39. No adjustments have been made to the information incorporated into the interim PFFS as the Council do not consider there to be any material accounting policy differences between the existing EU adopted International Financial Reporting Standards (IFRS) accounting policies and the recognition and measurement requirements of UK GAAP.

4. Variability

Movements in reserves are based upon estimates as at 30 June 2018 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur. There were prior year surpluses of £451m (June 2017: £188m, December 2017: £706m). The surplus arises across most classes of business, reflecting favourable claims development compared to projections. In the interim PFFS, this information is not subject to auditor review.

5. Members' funds at Lloyd's (FAL)

The valuation of FAL in the balance sheet totals £25,812m (June 2017: £22,291m, December 2017: £24,579m). The notional investment return on FAL included in the non-technical profit and loss account totals £143m (June 2017: £329m, December 2017: £722m).

6. Society of Lloyd's

The results of the Group interim financial statements of the Society included in the profit and loss account are a profit of £233m (June 2017: £219m, December 2017: £442m) in the technical account and a loss of £123m (June 2017: £131m, December 2017: £257m) in the non-technical account.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

7. Aggregation of results and net assets

A reconciliation between the results and net assets reported in the syndicate returns, members' FAL and by the Society is set out below:

Profit and loss account	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 £m
Result per syndicate returns	**335**	799	(2,908)
Result of the Society	**115**	99	156
Central Fund claims and provisions incurred in Society financial statements	**–**	–	–
Taxation charge in Society financial statements	**28**	21	31
Notional investment return on members' funds at Lloyd's	**143**	329	722
Movement in Society income not accrued in syndicate returns	**(33)**	(32)	(2)
Result for the financial period before tax	**588**	1,216	(2,001)

Capital and reserves	**30 June 2018 £m**	30 June 2017 £m	31 December 2017 £m
Net assets per syndicate returns	**65**	2,745	(1)
Net assets of the Society	**2,322**	2,113	2,188
Central Fund claims and provisions	**–**	1	–
Members' funds at Lloyd's	**25,812**	22,291	24,579
Unpaid cash calls reanalysed from debtors to members' balances	**115**	96	30
Society income receivable not accrued in syndicate returns	**(62)**	(59)	(29)
Total capital and reserves	**28,252**	27,187	26,767

Transactions between syndicates and the Society which have been reported within both the syndicate returns and the Society interim financial statements have been eliminated in the interim PFFS as set out in note 2.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

8. Segmental analysis

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the various lines of business written by the market. In the interim PFFS, this information is not subject to auditor review.

Six months ended 30 June 2018	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	6,978	3,536	(1,832)	(1,352)	352
Property	5,061	3,176	(1,780)	(1,439)	(43)
Casualty	4,269	3,063	(1,697)	(1,326)	40
Marine	1,418	1,068	(678)	(445)	(55)
Energy	780	410	(171)	(202)	37
Motor	534	462	(406)	(73)	(17)
Aviation	257	232	(148)	(88)	(4)
Life	41	39	(26)	(15)	(2)
Total from syndicate operations	19,338	11,986	(6,738)	(4,940)	308
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	–	–	–	233	233
Interim PFFS premiums and underwriting result	19,338	11,986	(6,738)	(4,707)	541
Allocated investment return transferred from the non-technical account					68
Balance on the technical account for general business					609

Six months ended 30 June 2017	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	7,008	3,831	(2,121)	(1,452)	258
Property	4,603	3,045	(1,727)	(1,368)	(50)
Casualty	4,132	2,963	(1,746)	(1,282)	(65)
Marine	1,375	1,037	(623)	(445)	(31)
Energy	802	434	(155)	(199)	80
Motor	636	443	(409)	(78)	(44)
Aviation	279	194	(109)	(83)	2
Life	46	34	(20)	(17)	(3)
Total from syndicate operations	18,881	11,981	(6,910)	(4,924)	147
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	–	–	–	219	219
Interim PFFS premiums and underwriting result	18,881	11,981	(6,910)	(4,705)	366
Allocated investment return transferred from the non-technical account					490
Balance on the technical account for general business					856

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

9. Net operating expenses

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 £m
Acquisition costs	**4,751**	4,737	8,645
Change in deferred acquisition costs	**(570)**	(711)	(239)
Administrative expenses	**1,126**	1,140	2,307
Reinsurance commissions and profit participation	**(600)**	(461)	(1,044)
Total operating expenses	**4,707**	4,705	9,669

10. Financial investments

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Shares and other variable yield securities and units in unit trusts	**9,555**	8,806	9,474
Debt securities and other fixed income securities	**38,045**	36,207	37,197
Participation in investment pools	**2,200**	2,439	2,118
Loans and deposits with credit institutions	**7,481**	5,905	6,841
Other	**94**	150	135
Total investments	**57,375**	53,507	55,765

11. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £8,466m at 30 June 2018 (June 2017: £9,412m, December 2017: £9,463m).

12. Members' balances

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 £m
Balance at 1 January	**–**	4,015	4,015
Result for the period per interim syndicate returns	**335**	799	(2,908)
Distribution on closure of the 2015 (2014) year of account	**(1,648)**	(2,678)	(2,670)
Advance distributions from open years of account	**(28)**	(58)	(60)
Movement in cash calls	**689**	22	1,019
Net movement on funds in syndicate (see note below)	**749**	741	774
Exchange (losses)/gains	**(19)**	(92)	(116)
Other	**40**	34	(54)
Balance at 30 June/31 December	**118**	2,783	–

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and funds at Lloyd's held in excess of members' capital requirements, they will be distributed in the second quarter of the year following the closure of the year of account.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 30 June 2018 there was £4,868m (June 2017: £4,139m, December 2017: £4,076m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2018)

13. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Cash at bank and in hand	**11,550**	12,434	12,137
Short term deposits with credit institutions	**2,008**	2,387	2,146
Overdrafts	**(199)**	(342)	(170)
Cash and cash equivalents	**13,359**	14,479	14,113

Of the cash and cash equivalents, £524m (June 2017: £517m, December 2017: £548m) is held in regulated bank accounts in overseas jurisdictions.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2018 Lloyd's Interim Pro Forma Financial Statements

The Council of Lloyd's engaged us to provide limited assurance on the interim pro forma financial statements defined below for the six months ended 30 June 2018.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Interim Pro Forma Financial Statements for the six months ended 30 June 2018 (the "Interim PFFS") has not been prepared, in all material respects, in accordance with the basis of preparation set out in note 2.

This conclusion is to be read in the context of what we say in the remainder of our report.

Scope of work

The scope of our work was limited to assurance over the Interim PFFS, prepared by the Council of Lloyd's, which comprise:

- the pro forma balance sheet as at 30 June 2018;
- the pro forma profit and loss account for the period then ended;
- the pro forma statement of comprehensive income for the period then ended;
- the pro forma statement of cash flows for the period then ended; and
- the related notes 1 to 13 which have been prepared on the basis set out in note 2.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Interim Report.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our Independence and Quality Control

We complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent team with experience in assurance.

Work done

The Interim PFFS have been compiled in part from an aggregation of financial information extracted from the profit and loss accounts, balance sheets, cash flow statements and related notes included in syndicates' Quarterly Monitoring Return A - Quarter 2 2018 ("interim return"), prepared by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have given a limited assurance conclusion, in accordance with International Standard on Review Engagements, (UK & Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our work did not involve assessing the quality of those reviews nor performing any audit or review procedures over the financial information of the syndicates.

We are required to plan and perform our work in order to consider the risk of material misstatement of the Interim PFFS. In doing so, our procedures consisted of making enquiries to obtain an understanding of how the Council of Lloyd's has compiled the Interim PFFS from the syndicate interim returns and the Society of Lloyd's condensed interim financial statements, how the funds at Lloyd's have been valued, and the nature of adjustments made to this information in the preparation of the Interim PFFS; and applying analytical and other review procedures. This work was performed in order to assess whether any material modifications are required to the Interim PFFS in order to prepare them in accordance with the basis of preparation set out in note 2. The engagement also involves evaluating the overall presentation of the Interim PFFS.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2018 Lloyd's Interim Pro Forma Financial Statements

The Council of Lloyd's responsibilities

The Council of Lloyd's is responsible for preparing the Interim PFFS in accordance with the basis of preparation set out in note 2. The purpose of the Interim PFFS is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared with the interim financial reports of general insurance companies.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Interim PFFS are free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Council of Lloyd's.

Intended users and purpose

This report, including our conclusions, has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 7 September 2018, to assist the Council of Lloyd's in reporting the Interim PFFS in accordance with the basis of preparation set out in note 2. We permit this report to be disclosed in the Interim Report, to assist the Council of Lloyd's in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Interim PFFS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Lloyd's for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
20 September 2018

3

Society Report

Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society of Lloyd's achieved an operating surplus for the period of £127m (June 2017: £124m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Total income	**166**	**119**	**285**	280
Other Group operating expenses	**(150)**	**(8)**	**(158)**	(156)
Operating surplus*	**16**	**111**	**127**	124

Corporation of Lloyd's

Total income for the Corporation increased to £166m during the first half of 2018 (30 June 2017: £165m). Within this, subscription income was lower, mainly as a result of the reduction in the subscription rate on 1 January 2018 from 0.40% to 0.36% of Gross Written Premiums.

In aggregate, other income streams increased compared to the prior period, in particular elective service charges, reflecting the higher rates levied for these services from 1 January 2018. Within income, premiums written through Lloyd's Insurance Company (China) Limited reduced to £89m (30 June 2017: £126m) driven by deterioration in terms and conditions which resulted in underwriters withdrawing from certain treaties. All business underwritten through the company is reinsured to Lloyd's syndicates.

Operating expenses remained broadly flat at £150m (30 June 2017: £150m), reflecting our ongoing focus on cost management following implementation of the Corporation Operating Model (COM) during 2017. Within this framework, investment continued in the strategic priorities, notably market modernisation and the Brexit project (see further details below).

Lloyd's Central Fund

Total income for the Central Fund increased to £119m (30 June 2017: £115m) reflecting the impact of movements in rates of exchange. The rate charged continued at 0.35% (1.4% for new syndicates) of Gross Written Premium.

Operating expenses for the Central Fund increased to £8m (30 June 2017: £6m) reflecting the impact of exchange rate movements. There was no charge in the current or prior period in respect of claims arising within the Fund and no payments were made in respect of insolvent corporate members in the current or prior period.

* The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Interim Report) is an Alternative Performance Measure (APM), with further information available on page 59.

Society of Lloyd's Group Interim Review

Investment performance

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Finance costs	**(20)**	(35)
Finance income	**9**	10
Gain on investments including unrealised movement of forward currency contracts	**21**	16
Total finance	**10**	(9)

The Society's investments, mostly held within the Central Fund, returned £30m or 0.8% during the period (June 2017: £26m, 0.7%). Excluding exchange rate movements, investments returned £4m or 0.1% during the period (June 2017: £90m, 2.3%).

Investment returns were relatively weak in the first half of 2018. Although the economic backdrop was broadly positive, investor sentiment reflected renewed caution and volatility peaked driving a sharp fall in risk asset pricing early on in the period. Full recovery followed for some markets, such as UK and US based equities, leading to a small positive return for the developed equity portfolio. Hedge fund investments also showed resilience generating a positive return. In contrast, emerging market equities suffered losses over the period, as did multi-asset credit investments. Expectation of higher interest rates and a moderate widening of credit spreads negatively impacted returns on fixed interest assets and a small loss was generated on the global investment grade bond portfolio.

In terms of foreign exchange movements, the US dollar appreciated against Sterling in the period. The Society's currency policy is to hold sufficient US dollars to match 200% of the underlying US dollar element of the Lloyd's Central Solvency Capital Requirement (CSCR), in line with Lloyd's risk appetite for central capital. Therefore, currency movements had a positive impact on Central Fund asset values in converted Sterling terms over the period. Finance costs, which primarily consist of interest arising on subordinated notes reduced by £15m to £20m (June 2017: £35m). The reduction reflects the issuance of £300m worth of sterling notes on 7 February 2017 at a rate payable of 4.875% per annum which was lower than the coupon on the notes they replaced.

Results summary

Overall, the surplus after tax for the six months to June 2018 was £115m (June 2017: a surplus of £99m). There was net other comprehensive income in the period of £19m (June 2017: £18m) reflecting a £19m improvement in the pension scheme deficit (2017: improvement in deficit of £26m). The net assets of the Society increased by £134m in the six months to June 2018 to £2,322m (31 December 2017: £2,188m).

Society of Lloyd's Group Interim Review

Solvency

Lloyd's solvency position is set out below. The solvency figures shown are unaudited.

The Solvency Capital Requirement (SCR) represents the amount of capital required to withstand a 1 in 200 year loss event over a one year time horizon. The Lloyd's Central SCR (CSCR) is calculated in respect of the risks facing the Society and the Central Fund. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd's rigorous capital setting rules. Only assets held centrally by the Society may cover the CSCR.

	30 June 2018 £m	31 December 2017 £m
Central assets per Group statement of financial position (page 31)	**2,322**	2,188
Subordinated debt	**793**	793
Total	**3,115**	2,981
Solvency valuation adjustments	**488**	597
Available central own funds to meet the Central SCR	**3,603**	3,578
Excess central own funds not eligible to cover the Central SCR	**(68)**	(133)
Eligible central own funds to meet the Central SCR	**3,535**	3,445
Central SCR	**1,622**	1,600
Central solvency ratio	**218%**	215%

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed due to the valuation principles used in Solvency II. They also include recognition of the callable layer, which may be taken from member level capital to strengthen central resources.

Under Solvency II capital eligibility rules, Tier 2 and 3 capital may only cover up to 50% of the SCR. The inclusion of the Tier 2 subordinated debt issued in early 2017 means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the CSCR by £68m (31 December 2017: £133m).

Lloyd's Brussels

Ever since the UK's decision to leave the European Union (EU) one of the key priorities for Lloyd's has been retaining access to EU markets post Brexit. In May 2018 Lloyd's Insurance Company S.A. (Lloyd's Brussels) received licence approval from the National Bank of Belgium. The licence means that Lloyd's Brussels will be able to write non-life risks from the European Economic Area (EEA), ensuring that Lloyd's customers can continue to access the market's specialist underwriting. At the same time Lloyd's announced that Vincent Vandendael would take up the post of Chief Executive Officer of Lloyd's Brussels in addition to his role as Lloyd's Chief Commercial Officer. Lloyd's Brussels is now established and operational, with an executive committee and board based in the Belgian capital. Meanwhile, Lloyd's continues to recruit for approximately 40 roles to be based in Brussels, with details of available roles on the website at Lloyds.com/careers. In June Lloyd's Brussels was granted the same financial ratings as Lloyd's by the rating agencies AM Best (A "excellent"), Standard & Poor's (A+ "strong") and Fitch (AA- "very strong"). These ratings recognise the importance of Lloyd's Brussels as an insurer for risks within the EEA. Lloyd's believes that being at the heart of the EEA will give us an opportunity to continue to grow our business in the region.

Lloyd's underwriters have underwritten contracts of insurance and reinsurance in the EEA which managing agents may not be authorised to service following the UK's exit from the EU. Lloyd's has, and continues to, lobby for a political solution to ensure that these policies are fully serviced following the withdrawal date.

To guard against the risk that there is not a political solution, Lloyd's has decided to accelerate its work with its advisers to find a pragmatic approach for achieving an Insurance Business Transfer (a "Part VII Transfer") of the relevant existing policies. This will provide confidence to customers that their policies will continue to be serviced following the date of the UK's withdrawal. Lloyd's is engaging with the relevant regulators and Lloyd's proposal is to ensure that the Part VII Transfer is completed before the end of the transition period.

Going Concern Statement

After making enquiries and considering management's assessment of the financial position of the Society including forecast and stress tests undertaken on the Chain of Security, the members of the Council of Lloyd's consider it appropriate to adopt the going concern basis of accounting in preparing the Society's financial statements.

The Chain of Security is discussed in more detail in 'The Strategy Report' on page 22 of Lloyd's 2017 Annual Report and in the Security underlying policies issued at Lloyd's which is reported as a separate document and can be viewed at www.lloyds.com/about-lloyds/what-is-lloyds/stability-and-security.

Council of Lloyd's Statement of Principal Risks and Uncertainties

The prevailing global geopolitical, economic and industry conditions continue to give rise to a number of current and future risks.

The most critical risks currently highlighted for management focus through the Lloyd's risk framework are:

- Sustainable market profitability;
- Effective risk based supervision of the Lloyd's market;
- Evolving cyber security threats;
- Delivery of major programmes (including establishing a Brussels subsidiary and modernising the market) while managing operational stretch;
- Political change and uncertainty;
- Regulatory change and increased requirements; and
- Strategic threats to the business model.

The status of these risks is monitored by the Risk Committee and Board through the Own Risk Solvency Assessment (ORSA) process.

Council of Lloyd's Statement of Responsibilities

We confirm that to the best of our knowledge:

— The condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2018.
— The statement from the Chief Executive and the Society of Lloyd's Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements.
— The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year.
— The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

The maintenance and integrity of the Lloyd's website is the responsibility of the Council of Lloyd's; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Council of Lloyd's:

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

20 September 2018

Group Income Statement

(For the six months ended 30 June 2018)

	Note	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Corporation operating income		**166**	165	351
Central Fund income		**119**	115	125
Gross written premiums		**89**	126	253
Outward reinsurance premiums		**(89)**	(126)	(253)
Total income		**285**	280	476
Gross insurance claims and insurance expenses incurred		**(93)**	(99)	(212)
Insurance claims and expenses recoverable from reinsurers		**93**	99	212
Other Group operating expenses		**(158)**	(156)	(306)
Operating surplus		**127**	124	170
Finance costs	4(a)	**(20)**	(35)	(55)
Finance income	4(b)	**30**	26	62
Share of profits of associates		**6**	5	10
Surplus before tax		**143**	120	187
Tax charge	5	**(28)**	(21)	(31)
Surplus for the period/year		**115**	99	156

Group Statement of Comprehensive Income

(For the six months ended 30 June 2018)

	Note	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Surplus for the period/year		**115**	99	156
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement gains on pension assets/liabilities				
UK	6	**19**	26	48
Overseas		**–**	–	–
Associates		**1**	2	2
Tax charge relating to items that will not be reclassified	5	**(3)**	(6)	(9)
Currency translation differences		**2**	(4)	(5)
Net other comprehensive income for the period/year		**19**	18	36
Total comprehensive income for the period/year		**134**	117	192

Group Statement of Financial Position

(As at 30 June 2018)

	Note	30 June 2018 £m	30 June 2017 £m	31 December 2017 (audited) £m
Assets				
Intangible assets	7	**3**	–	–
Lloyd's Collection		**13**	13	13
Plant and equipment	8	**16**	17	18
Deferred tax asset		**24**	35	25
Investment in associates		**22**	12	18
Insurance contract assets		**359**	294	342
Loans recoverable		**38**	43	40
Financial investments	9	**–**	3,417	3,293
Financial investments at fair value through profit and loss	9	**2,467**	–	–
Financial investments at amortised cost	9	**1,029**	–	–
Trade and other receivables due within one year		**288**	211	265
Prepayments and accrued income		**19**	21	23
Derivative financial instruments	10	**14**	14	16
Cash and cash equivalents		**628**	439	497
Total assets		**4,920**	4,516	4,550
Equity and liabilities				
Equity				
Accumulated reserve		**2,287**	2,079	2,155
Revaluation reserve		**13**	13	13
Translation reserve		**22**	21	20
Total equity		**2,322**	2,113	2,188
Liabilities				
Subordinated notes	11	**793**	792	793
Insurance contract liabilities		**359**	294	342
Pension liabilities	6	**147**	211	164
Provisions		**12**	17	15
Loans funding statutory insurance deposits		**550**	524	483
Trade and other payables		**557**	393	481
Accruals and deferred income		**142**	137	67
Tax payable		**28**	20	7
Derivative financial instruments	10	**10**	15	10
Total liabilities		**2,598**	2,403	2,362
Total equity and liabilities		**4,920**	4,516	4,550

Approved and authorised for issue by the Council of Lloyd's on 20 September 2018 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

Group Statement of Changes in Equity

(For the six months ended 30 June 2018)

	Accumulated reserve £m	Revaluation reserve £m	Translation reserve £m	Total equity £m
At 1 January 2017	1,958	13	25	1,996
Surplus for the period	99	–	–	99
Net other comprehensive income/(deficit) for the period	22	–	(4)	18
At 30 June 2017	2,079	13	21	2,113
Surplus for the period	57	–	–	57
Net other comprehensive income/(deficit) for the period	19	–	(1)	18
At 31 December 2017	2,155	13	20	2,188
Surplus for the period	**115**	**–**	**–**	**115**
Net other comprehensive income for the period	**17**	**–**	**2**	**19**
At 30 June 2018	**2,287**	**13**	**22**	**2,322**

Group Statement of Cash Flows

(For the six months ended 30 June 2018)

	Note	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Cash generated from operations	12	**265**	215	219
Tax paid		**(6)**	(34)	(51)
Net cash generated from operating activities		**259**	181	168
Cash flows from investing activities				
Purchase of plant, equipment and intangible assets	7/8	**(4)**	(2)	(8)
Purchase of financial investments	9(a/b)	**(1,408)**	(1,049)	(1,701)
Receipts from the sale of financial investments	9(a/b)	**1,445**	1,006	1,752
Increase in short term deposits	9(b)	**(235)**	(27)	(7)
Dividends received from associates		**3**	–	–
Interest received		**19**	26	45
Dividends received	4	**3**	4	7
Realised gains/(losses) on settlement of forward currency contracts		**2**	4	(3)
Net cash (used in)/generated from investing activities		**(175)**	(38)	85
Cash flows from financing activities				
Issuance of subordinated notes		**–**	298	298
Redemption of subordinated notes		**–**	(392)	(392)
Interest paid on subordinated notes		**(15)**	(29)	(53)
Increase in borrowings for statutory insurance deposits		**73**	37	18
Net cash generated from/(used in) financing activities		**58**	(86)	(129)
Net increase in cash and cash equivalents		**142**	57	124
Effect of exchange rates on cash and cash equivalents		**(11)**	(9)	(18)
Cash and cash equivalents at 1 January		**497**	391	391
Cash and cash equivalents at 30 June/31 December		**628**	439	497

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council of Lloyd's on 20 September 2018. The Group interim financial statements comprise the consolidation of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each statement of financial position date. The Group interim financial statements for the six months ended 30 June 2018 and 30 June 2017 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2018, is set out on page 58.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2017 prepared under IFRS as adopted by the EU. Their report was included in the Annual Report 2017 which was published on 20 March 2018 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting'

These Group interim financial statements have been prepared on the going concern basis and in conformity with IAS 34 'Interim Financial Reporting' (as adopted by the EU) which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The accounting policies, except for the adoption of the amendments to the International Financial Reporting Standards (IFRS) that became effective as of 1 January 2018 as stated below, are consistent with those adopted for the Society of Lloyd's Annual Report 2017, which was approved on 20 March 2018. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, interpretations and amendments to existing standards that have been adopted by the Society

The Society adopted the following new IFRSs, interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2018:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

Details of the impact of these new accounting standards on the Group interim financial statements are set out below. In addition, the Society adopted the following with effect from 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4);
- Transfers of Investment Property (Amendments to IAS 40); and
- Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1, IFRS 12 and IAS 28).

The Society's accounting policies have been updated to reflect these. The Council considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group interim financial statements although the impact will continue to be assessed as the standards develop.

Work is also ongoing to prepare for the implementation of IFRS 16 Leases (effective from 1 January 2019) and IFRS 17 Insurance Contracts (effective from 1 January 2021). Further details are set out below.

IFRS 9 – Financial instruments

IFRS 9 replaces IAS 39 and specifies how an IFRS reporter will recognise, measure, present and disclose financial instruments.

The standard focuses on the three key areas:

- Classification and Measurement: determining how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis;
- Impairment: introducing a new expected loss impairment model that will require more timely recognition of expected credit losses; and
- Hedge accounting: by introducing a substantially reformed accounting model, with enhanced disclosures about risk management activity.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting' continued

IFRS 9 – Financial instruments continued

In accordance with the transitional provisions in IFRS 9 (paragraph 7.2.15 and paragraph 7.2.26), comparative figures have not been restated. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheets as at 31 December 2017 or 30 June 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below:

Balance sheet (extract)	31 December 2017 As originally presented £m	IFRS 9 adjustments £m	1 January 2018 Restated £m
Financial investments	3,293	(3,293)	–
Financial assets at fair value through profit or loss	–	2,566	2,566
Financial assets at amortised cost	–	727	727

There has been no impact on the presentation of the Group Income Statement or Group Statement of Other Comprehensive Income as a result of the implementation of IFRS 9.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories. An analysis of the valuation approaches adopted for the main balances in the Statement of Financial Position is set out below:

Investment category	Notes	30 June 2018 £m	Valuation method under IFRS9	Previous valuation method
Government fixed interest securities	(i)	834	Fair value	Fair value
Corporate securities	(i)	780	Fair value	Fair value
Emerging market	(i)	177	Fair value	Fair value
Equities	(i)	259	Fair value	Fair value
Hedge funds	(i)	158	Fair value	Fair value
Multi-asset	(i)	258	Fair value	Fair value
Loan investments	(i)	1	Fair value	Fair value
Short term and security deposits	(ii)	476	Amortised cost	Fair value
Statutory insurance deposits	(ii)	553	Amortised cost	Fair value
Total financial investments		3,496		
Loans recoverable	(iii)	38	Amortised cost	Fair Value
Trade and other receivables due within one year	(iv)	288	Amortised cost	Fair value
Cash and cash equivalents	(iv)	628	Amortised cost	Fair value
Subordinated notes and perpetual subordinated capital securities		793	Amortised cost	Amortised cost
Trade and other payables	(iv)	557	Amortised cost	Fair value

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting' continued

IFRS 9 – Financial instruments continued

(i) Financial investments

The following investments continued to be recorded as financial assets at Fair Value through the Profit and Loss account (FVPL): Government fixed interest securities, corporate securities, emerging market, equities, hedge funds, multi-asset and loan investments. These investments do not meet the IFRS 9 criteria for classification at amortised cost because their cash flows do not solely represent payments of principal and interest.

(ii) Deposits

Deposits were reclassified from fair value to amortised cost (£727m as at 1 January 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows solely represent payment of principal and interest on the principal amount. The fair value of £727m as at 1 January 2018 was equivalent to the amortised cost for these assets. There was no impact on retained earnings at 1 January 2018.

(iii) Loans recoverable

Loans recoverable were reclassified from fair value to amortised cost (£40m as at 1 January 2018). At the date of initial application the Group's business model is to hold these loans for collection of contractual cash flows, and the cash flows solely represent the payment of the principal. The fair value of these assets was £40m as at 1 January 2018 and there was no material difference between this and the amortised cost of these assets. There was no impact on retained earnings at 1 January 2018.

(iv) Other financial assets and liabilities

Trade and other receivables due within one year, cash and cash equivalents and trade and other payables were all reclassified from fair value to amortised cost (fair value of each balance was £265m, £497m and £481m respectively as at 1 January 2018). At the date of initial application the Group's business model is to hold these items for collection or payment of contractual cash flows, and the cash flows solely represent payment of principal and interest on the principal amount (where applicable). The fair value of these balances as at 1 January 2018 was equivalent to the amortised cost for these balances. There was no impact on retained earnings at 1 January 2018.

Impairment

The Society has a number of types of financial assets that are subject to the standard's new expected credit loss model:

- Deposits;
- Loans recoverable;
- Trade and other receivables due within one year; and
- Cash and cash equivalents.

The Society was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact on the financial statements of the Society of implementing this new methodology was less than £1m.

Deposits

Management considers that the majority of the Society's deposits are held with credit institutions which have a low credit risk. Further details of the credit rating of deposits held by the Society are set out in note 9, with the vast majority assigned a rating of A or above. For the purposes of calculating an appropriate impairment provision, management has considered:

- The rating assigned to individual deposits from an independent third party rating agency; and
- Any specific circumstances relating to the individual holdings which need to be taken account of when considering recoverability.

Loans recoverable

Loans recoverable represent Central Fund loans made to Hardship members. The balances due are secured on underlying assets such as property or other investments. Accordingly, management considers these loans to have a low credit risk and as a result no impairment provision has been recognised.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting' continued

IFRS 9 – Financial instruments continued

Trade and other receivables due within one year

Management has reviewed the balances due to the Society within trade and other receivables, and considers them to be low credit risk. These balances are generally held with counterparties which are considered to have a low risk of default. As a result, management considers that no impairment provision is required.

Cash and cash equivalents

As noted above regarding deposits, management considers that the majority of the Society's deposits are held with credit institutions which have a low credit risk. For the purposes of calculating an appropriate impairment provision, management has considered:

- The credit rating assigned to individual deposits from an independent third party rating agency; and
- Any specific circumstances relating to the individual holdings which need to be taken account of when considering recoverability.

Hedge accounting

The Society has not adopted hedge accounting, so there is no impact of the new accounting standard from that perspective.

Accounting policy applied from 1 January 2018

Classification

From 1 January 2018, the Society classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Society's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are recorded in profit or loss. The table on page 35 sets out which measurement category is applied to the different financial instruments.

Initial recognition

At initial recognition, the Society measures a financial asset at its fair value plus, in the case of a financial asset not valued at Fair Value through Profit or Loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement

The subsequent measurement of financial instruments depends on their classification as follows:

- Financial instruments at FVPL are carried in the Group statement of financial position at fair value. Gains and losses arising from changes in their fair value are included in the Group income statement in the period in which they arise. When financial assets are interest bearing, interest calculated using the effective interest method is recognised in the Group income statement; and
- Where financial instruments are carried at amortised cost, the value is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

IFRS 15 – Revenue from contracts with customers

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018. The standard provides a single, principles-based five step model to be applied to all contracts with customers. Details of these steps are set out below:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when the entity satisfies a performance obligation.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting' continued

IFRS 15 – Revenue from contracts with customers continued

The Society has adopted IFRS 15 – Revenue from contracts with customers from 1 January 2018, although adoption of the new standard did not have a material impact on the amounts recognised in the financial statements. The accounting policy in respect of revenue recognition is set out below:

Income, which is stated net of value added tax, comprises the fair value of amounts receivable. Revenue arising in respect of Members' subscriptions, the Market modernisation levy and Central Fund contributions is calculated by applying a percentage to management's estimate of the future premium of each syndicate underwriting year. This future premium is estimated based on historical development trends. This approach therefore assumes that the premium written in the current year will develop in a similar pattern to that demonstrated in previous years.

The impact of any potential anomalies in the premium earning pattern of any one particular year is mitigated by applying an average development factor which is calculated based on the experience of a number of years. The extrapolation factor is based on a development factor which is applied to the current year written premium. Income is recognised as follows:

(i) Members' subscriptions, market charges and other services

Members' subscriptions, market charges and other services are recognised in the period for which the service is provided. They are recognised on a basis that reflects the timing, nature and value of the benefits provided.

(ii) Central Fund contributions

Central Fund contributions from members underwriting in the year are recognised in the period for which the service is provided.

(iii) Interest income

Interest receivable is recognised in the Group income statement on a time apportioned basis using the effective interest method. Any unwinding of discount is recognised as interest income.

(iv) Dividend income

Dividend income from equity investments is included in the Group income statement on the ex-dividend date.

(v) Other income

Other income is recognised when recoverability is agreed.

IFRS 16 – Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. IFRS 16 was issued on 1 January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The majority of the Society's leases are longer-term operating leases in respect of properties, within both the UK and a number of overseas locations. In addition, various Society assets are held under leases, the accounting for which will also be impacted by the new reporting standard.

It is expected that implementation of IFRS 16 will have a material impact on the Group financial statements of the Society. Although the requirements of IFRS 16 do not change the total amount of cash flows between the parties to a lease, the recognition pattern of those cash flows will change, with the charge to the Income statement in the earlier stages of a lease typically higher than under current IFRS. The Society has completed an initial assessment of the potential impact on its consolidated financial statements and is currently undertaking a detailed assessment before implementation from 1 January 2019.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including:

- the borrowing rate of the Society and its subsidiary operations at 1 January 2019;
- the composition of the Society's lease portfolio at that date;
- the Society's latest assessment of whether it will exercise any lease renewal options; and
- the extent to which the Society chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Society will recognise new assets and liabilities for its office operating leases worldwide. In particular, the largest lease arrangement which needs to be considered within the new accounting standard framework is that relating to the Lloyd's 1986 Building in London, which has a current rental value of £16.8m per annum.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

2. Principal accounting policies and conformity with IAS 34 'Interim Financial Reporting' continued

IFRS 16 – Leases continued

The nature of expenses related to the lease portfolio will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Society does not currently have any finance leases.

As a lessee, the Society can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. If the retrospective approach is adopted, it would require a restatement of prior year comparative figures and no practical expedients would be available. Alternatively, if the modified retrospective approach is adopted, the cumulative effect of adopting IFRS 16 would be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Society is assessing the potential impact of these alternative approaches in order to adopt the one which is most appropriate.

Further information on the Society's current accounting policy for leases is provided in note 2(s) and note 25 of the 2017 Annual Report.

IFRS 17 – Insurance contracts

IFRS 17 sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. The standard was issued in May 2017 and has an effective date of 1 January 2021. A high level review of its requirements was completed in the first half of this year and the standard is expected to have a material impact on the Society's consolidated accounts, driven by the insurance operations in China, Lloyd's Insurance Company (China) Limited and the Society's new insurance subsidiary in Belgium, Lloyd's Insurance Company S.A. Further information on the Society's current accounting policy for insurance contracts is provided in note 2(g) and note 5 of the 2017 Annual Report.

3. Segmental analysis

Segment information is presented in respect of the Society's business segments. The primary business segments are based on the Society's management and internal reporting structure.

Intra-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information in respect of geographical location is not presented. The Society's main source of income is from the Lloyd's market based primarily in the UK, which includes the recovery of costs in respect of overseas operations. The recovery of overseas operating costs is collected in the UK from the Lloyd's market.

The Society's primary business segments are as follows:

- Corporation of Lloyd's: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment. Both subscription income and expenses for the Corporation of Lloyd's are generally recognised evenly throughout the period.
- Lloyd's Central Fund: these funds, comprising the New Central Fund and Old Central Fund, are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas Reinsurance Limited (ERL). Central Fund contributions are recognised in full during the first half of the year.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

3. Segmental analysis continued

		Six months ended 30 June 2018		
(a) Information by business segment	Note	**Corporation of Lloyd's £m**	**Lloyd's Central Fund £m**	**Society total £m**
Segment income				
Total income		166	119	285
Segment operating expenses				
Gross insurance claims incurred		(93)	–	(93)
Insurance claims recoverable from reinsurers		93	–	93
Other Group operating expenses				
Employment (including pension costs and restructuring costs)		(77)	–	(77)
Premises		(24)	–	(24)
Legal and professional		(16)	(1)	(17)
Systems and communications		(18)	–	(18)
Other		(15)	(7)	(22)
Total other Group operating expenses		(150)	(8)	(158)
Total segment operating expenses		(150)	(8)	(158)
Total segment operating surplus		16	111	127
Finance costs	4(a)	–	(20)	(20)
Finance income	4(b)	7	23	30
Share of profits of associates		6	–	6
Segment surplus before tax		29	114	143
Tax charge				(28)
Surplus for the period				115
Segment assets and liabilities				
Financial investments		969	2,527	3,496
Cash and cash equivalents		419	209	628
Other assets		493	279	772
Segment assets		1,881	3,015	4,896
Tax assets		35	(11)	24
Total assets		1,916	3,004	4,920
Segment liabilities		(1,694)	(876)	(2,570)
Tax liabilities		(36)	8	(28)
Total liabilities		(1,730)	(868)	(2,598)
Total equity		186	2,136	2,322

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

3. Segmental analysis continued

		Six months ended 30 June 2017		
(a) Information by business segment continued	Note	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Segment income				
Total income		165	115	280
Segment operating expenses				
Gross insurance claims incurred		(99)	–	(99)
Insurance claims recoverable from reinsurers		99	–	99
Other Group operating expenses				
Employment (including pension costs and restructuring costs)		(81)	–	(81)
Premises		(25)	–	(25)
Legal and professional		(13)	–	(13)
Systems and communications		(15)	–	(15)
Other		(16)	(6)	(22)
Total other Group operating expenses		(150)	(6)	(156)
Total segment operating expenses		(150)	(6)	(156)
Total segment operating surplus		15	109	124
Finance costs	4(a)	–	(35)	(35)
Finance income	4(b)	4	22	26
Share of profits of associates		5	–	5
Segment surplus before tax		24	96	120
Tax charge				(21)
Surplus for the period				99
Segment assets and liabilities				
Financial investments		739	2,678	3,417
Cash and cash equivalents		397	42	439
Other assets		470	155	625
Segment assets		1,606	2,875	4,481
Tax assets		45	(10)	35
Total assets		1,651	2,865	4,516
Segment liabilities		(1,541)	(842)	(2,383)
Tax liabilities		(27)	7	(20)
Total liabilities		(1,568)	(835)	(2,403)
Total equity		83	2,030	2,113

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

3. Segmental analysis continued

(a) Information by business segment continued	Note	Full year 2017 (audited) Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Segment income				
Total income		351	125	476
Segment operating expenses				
Gross insurance claims incurred		(212)	–	(212)
Insurance claims recoverable from reinsurers		212	–	212
Other Group operating expenses				
Employment (including pension costs and restructuring costs)		(138)	–	(138)
Premises		(52)	–	(52)
Legal and professional		(36)	(1)	(37)
Systems and communications		(33)	–	(33)
Other		(35)	(11)	(46)
Total other Group operating expenses		(294)	(12)	(306)
Total segment operating expenses		(294)	(12)	(306)
Total segment operating surplus		57	113	170
Finance costs	4(a)	–	(55)	(55)
Finance income	4(b)	9	53	62
Share of profits of associates		10	–	10
Segment surplus before tax		76	111	187
Tax charge				(31)
Surplus for the year				156
Segment assets and liabilities				
Financial investments		645	2,648	3,293
Cash and cash equivalents		433	64	497
Other assets		581	154	735
Segment assets		1,659	2,866	4,525
Tax assets		37	(12)	25
Total assets		1,696	2,854	4,550
Segment liabilities		(1,521)	(834)	(2,355)
Tax liabilities		(30)	23	(7)
Total liabilities		(1,551)	(811)	(2,362)
Total equity		145	2,043	2,188

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

3. Segmental analysis continued

A summary of changes in the Society's net central assets is shown in the table below:

(b) Net central assets	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Central Fund			
Net assets 1 January	**2,043**	1,952	1,952
Operating surplus	**112**	110	115
Intra-Group transactions	**(1)**	(1)	(2)
Net finance income/(cost)	**3**	(13)	(2)
Tax charge	**(21)**	(18)	(20)
Net assets as at 30 June/31 December	**2,136**	2,030	2,043
Corporation of Lloyd's and subsidiary undertakings	**186**	83	145
Net Society assets at 30 June/31 December	**2,322**	2,113	2,188
Subordinated notes	**793**	792	793
Net central assets excluding subordinated debt liabilities	**3,115**	2,905	2,981

(I) Central Fund contributions from members and Corporation of Lloyd's subscriptions

During the six months ended 30 June 2018, members paid amounts to the Central Fund (Central Fund contributions) and to the Corporation of Lloyd's (members' subscriptions) at 0.35% and 0.36% respectively of business plan Gross Written Premium. The ultimate amounts to be retained by the Central Fund and the Corporation of Lloyd's for 2018 will be based on 2018 Gross Written Premiums, the quantification of which will not be known until 2020. The £114m (Central Fund contributions) and £58m (members' subscriptions) included in the 2018 interim Group income statement are based on present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

(II) Central Fund claims and provisions

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. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations, except for renewals of commitments previously granted.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments to 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. As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the Group interim financial statements and changes during the period are reflected in the Group income statement.

During the six months to 30 June 2018, no undertakings were paid to corporate members (30 June 2017: nil; 31 December 2017: nil).

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

4. Finance

(a) Finance costs	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Interest payable on financial liabilities measured at amortised cost	**(20)**	(31)	(51)
Amortisation of issue costs and discount	**–**	(4)	(4)
Total interest payable on financial liabilities	**(20)**	(35)	(55)
(b) Finance income			
Bank interest received	**6**	5	9
Dividends received	**3**	4	7
Gain on investments including unrealised movement of forward currency contracts	**21**	16	46
Movement in loans recoverable	**–**	1	–
Total finance income	**30**	26	62

5. Taxation

(a) Analysis of total tax charge	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Current tax:			
Corporation tax based on profits for the period at 19% (2017: 19.25%)	**(28)**	(20)	(23)
Adjustments in respect of previous periods	**(1)**	(1)	1
Foreign tax suffered	**(1)**	–	(3)
Total current tax	**(30)**	(21)	(25)
Deferred tax			
Origination and reversal of timing differences			
Current year	**2**	(1)	(7)
Prior year	**–**	1	1
Tax charge recognised in the Group income statement	**(28)**	(21)	(31)
Analysis of tax charge recognised in the Group statement of comprehensive income			
Tax charge on actuarial gain on pension liabilities			
Group	**(3)**	(6)	(9)
Associates	**–**	–	–
Tax charge recognised in the Group statement of comprehensive income	**(3)**	(6)	(9)
Total tax charge	**(31)**	(27)	(40)

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

5. Taxation continued

(b) Reconciliation of effective tax rate	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Surplus on ordinary activities before tax	**143**	120	187
Expected tax at current rate	**(27)**	(23)	(36)
Expenses not deductible for tax purposes	**(1)**	–	(1)
Overseas tax	**–**	–	(1)
Difference between tax and accounting profit on investments	**–**	1	1
Share of profits of associates	**1**	1	2
Deferred tax on leased assets	**–**	–	1
Deferred tax adjustments relating to change in tax rate	**–**	–	1
Deferred tax prior year adjustments	**–**	1	1
Current tax prior year adjustments	**(1)**	(1)	1
Tax charge	**(28)**	(21)	(31)

Deferred tax assets and liabilities are measured at the tax rate that will apply to the period when an asset is expected to be realised or a liability is expected to be settled. The applicable rate is that which has been enacted or substantively enacted by the statement of financial position date.

The deferred tax asset is based on corporation tax rates of 19%-17% depending on when an asset is expected to unwind (2018: 19%). Reductions to the UK corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 were announced in the Budget 2016 on 16 March 2016 and substantively enacted in September 2016.

6. Pension schemes

Lloyd's operates a number of defined benefit contribution pension schemes. The principal scheme is the Lloyd's Pension Scheme which is a defined benefit scheme. Other schemes have been established for certain employees based overseas.

These schemes are generally funded by the payment of contributions to separately administered funds.

Defined benefit and contribution plans

	30 June 2018 £m	30 June 2017 £m	31 December 2017 (audited) £m
Schemes in deficit			
Lloyd's Pension Scheme	**(144)**	(208)	(161)
Overseas pension schemes	**(3)**	(3)	(3)
Total scheme deficit	**(147)**	(211)	(164)

The Lloyd's Pension Scheme

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2018 was £144m (30 June 2017: deficit of £208m; 31 December 2017: deficit of £161m) before the allowance of deferred tax.

An actuarial gain of £19m has been recognised in the six months ended 30 June 2018 (30 June 2017: £26m; 31 December 2017: £48m).

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

6. Pension schemes continued

Closure of pension scheme

The Society carried out a review of its rewards and recognition package during 2017. The aim of this review was to ensure that the Society offers a competitive and attractive package that is fair and consistent to all employees and in line with other employers, both within and beyond the financial services industry. As a result, the Society announced on 4 September 2017 a number of proposals regarding future pension provisions for its employees. Following that announcement, the Society entered into a collective consultation process for those employees in the Defined Benefit Pension Scheme, during which employee representatives were elected and workshops were held, followed by meetings with affected individuals.

Following completion of that consultation process on 22 November 2017, and responding to some proposals from employees, the Society subsequently announced that it would proceed with the closure of the Defined Benefit Pension Scheme to all members with effect from 30 June 2018. Following that, all existing members of the Scheme would automatically be enrolled into the Lloyd's Group Personal Pension plan (GPP). The GPP contribution was also externally benchmarked and reviewed, with increased levels being approved from 2018 for all employees.

Changes in the present value of the defined benefit obligations are:

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Actuarial value of Scheme liabilities at 1 January	**957**	958	958
Interest cost on Pension Scheme liabilities	**11**	12	24
Current service cost (net of employee contributions)	**4**	5	11
Employee contributions	**1**	1	2
Benefits paid	**(16)**	(16)	(28)
Experience gains arising in Scheme liabilities	**–**	(1)	2
Curtailments	**–**	–	(20)
Change in assumptions underlying the present value of the Scheme liabilities			
Demographic assumption change	**–**	–	(11)
Financial assumption change	**(26)**	1	19
Actuarial value of Scheme liabilities at 30 June/31 December	**931**	960	957

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

6. Pension schemes continued

Changes in fair value of plan assets were:

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Fair value of Scheme assets at 1 January	**796**	730	730
Expected return on Pension Scheme assets	**9**	9	18
Employer contributions			
Normal	**3**	2	6
Special	**–**	–	11
Employee contributions	**1**	1	2
Benefits paid	**(16)**	(16)	(28)
Return on Scheme assets (less)/greater than discount rate	**(6)**	26	58
Administrative expenses	**–**	–	(1)
Fair value of Scheme assets at 30 June/31 December	**787**	752	796

The triennial funding valuation as at 30 June 2016 was undertaken by Willis Towers Watson. The total market value of the Scheme's assets at the date of the valuation was £667m and the total value of accrued liabilities was £730m showing a funding deficit of £63m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan is in place and has been agreed with the Trustees. This will be kept under review as circumstances develop.

Employee contributions of 5% of pensionable earnings (or 10% of pensionable earnings for members of the senior management section) are payable. Normally, instead of making an employee contribution, employees make a salary sacrifice of the appropriate percentage of their salary and Lloyd's makes an additional employer contribution of the same amount.

Members of the Lloyd's Group Personal Pension Plan can vary their contribution rate (payable via salary sacrifice) and can change this at any time.

Sensitivity of pension obligation to changes in assumptions

A change of 1% pa in the discount rate to be adopted as at 30 June 2018 would result in a change to the balance sheet liabilities at that date of around 20%, or approximately £190m.

A change of 1% pa in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2018, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the balance sheet liabilities at that date of around 10%, or approximately £95m.

A change in the mortality assumptions could have a significant impact on the liabilities. For instance, if members aged 60 were instead expected to live for one year longer, with all members' life expectancies increasing by a proportionate amount, then the liability as at 30 June 2018 would be around 3% higher.

Overseas pension schemes

The Corporation of Lloyd's also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2018 is £3m (30 June 2017: £3m; 31 December 2017: £3m).

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

7. Intangible assets – software development

Cost	**£m**
At 1 January 2017	5
Additions	–
Disposals	–
At 30 June 2017	5
Additions	–
Disposals	–
At 31 December 2017	5
Additions	**3**
Disposals	**–**
At 30 June 2018	**8**
Amortisation	
At 1 January 2017	(5)
Charge for the period	–
Disposals	–
At 30 June 2017	(5)
Charge for the period	–
Disposals	–
At 31 December 2017	(5)
Charge for the period	**–**
Disposals	**–**
At 30 June 2018	**(5)**
Net book value at 30 June 2018	**3**
Net book value at 31 December 2017	–
Net book value at 30 June 2017	–

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

8. Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2017	32	24	56
Additions	2	–	2
Disposals	(1)	–	(1)
At 30 June 2017	33	24	57
Additions	3	3	6
Disposals	(1)	(2)	(3)
At 31 December 2017	35	25	60
Additions	**1**	**–**	**1**
Disposals	**(1)**	**–**	**(1)**
At 30 June 2018	**35**	**25**	**60**
Depreciation			
At 1 January 2017	21	17	38
Depreciation charge for the period	2	1	3
Disposals	(1)	–	(1)
At 30 June 2017	22	18	40
Depreciation charge for the period	1	2	3
Impairment losses	–	2	2
Disposals	(1)	(2)	(3)
At 31 December 2017	22	20	42
Depreciation charge for the period	**2**	**1**	**3**
Disposals	**(1)**	**–**	**(1)**
At 30 June 2018	**23**	**21**	**44**
Net book value at 30 June 2018	**12**	**4**	**16**
Net book value at 31 December 2017	13	5	18
Net book value at 30 June 2017	11	6	17

9. Financial investments

	30 June 2018 £m	30 June 2017 £m	31 December 2017 (audited) £m
Financial investments at amortised cost			
Statutory insurance deposits	**553**	–	–
Short term and security deposits	**476**	–	–
Total financial investments at amortised cost	**1,029**	–	–
Statutory insurance deposits	**–**	527	486
Financial investments at fair value through profit and loss	**2,467**	2,890	2,807
Total financial investments	**3,496**	3,417	3,293

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

9. Financial investments continued

(a) Financial investments at amortised cost

	30 June 2018			30 June 2017	31 December 2017 (audited)
	Securities £m	Deposits £m	Total £m	£m	£m
Statutory insurance deposits					
Market value at 1 January	12	474	486	497	497
Additions at cost	7	287	294	460	504
Disposal proceeds	(13)	(220)	(233)	(423)	(486)
Surplus/(deficit) on the sale and revaluation of investments	–	6	6	(7)	(29)
Market value at 30 June/31 December	6	547	553	527	486

	30 June 2018		30 June 2017		31 December 2017 (audited)	
	Cost £m	Valuation £m	Cost £m	Valuation £m	Cost £m	Valuation £m
Analysis of government securities at period/year end	6	6	12	13	12	12

	30 June 2018	30 June 2017	31 December 2017 (audited)
Analysis of statutory insurance deposits			
AAA	81	25	106
AA	241	268	164
A	211	213	196
BBB	9	9	8
Other	11	12	12
Total of statutory insurance deposits	553	527	486

	30 June 2018			30 June 2017	31 December 2017 (audited)
	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Total £m	Total £m	Total £m
Analysis of short term and security deposits					
AAA	72	86	158	–	–
AA	40	49	89	–	–
A	105	39	144	–	–
BBB	85	–	85	–	–
Other	–	–	–	–	–
Total of short term and security deposits	302	174	476	–	–

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

9. Financial investments continued

(b) Financial investments at fair value through profit and loss

	30 June 2018			30 June 2017	31 December 2017 (audited)
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Total £m**	Total £m	Total £m
Market value at 1 January	**159**	**2,648**	**2,807**	2,863	2,863
Transfers to amortised cost	**(159)**	**(82)**	**(241)**	–	–
Additions at cost	**153**	**961**	**1,114**	589	1,197
Increase in short term deposits	**–**	**–**	**–**	27	7
Disposal proceeds	**(39)**	**(1,173)**	**(1,212)**	(583)	(1,266)
(Deficit)/surplus on the sale and revaluation of investments	**–**	**(1)**	**(1)**	(6)	6
Market value at 30 June/31 December	**114**	**2,353**	**2,467**	2,890	2,807
Listed securities					
Fixed interest					
Government	**85**	**749**	**834**	783	808
Corporate securities	**29**	**751**	**780**	840	733
Emerging markets	**–**	**177**	**177**	93	287
High yield	**–**	**–**	**–**	59	49
Total fixed interest	**114**	**1,677**	**1,791**	1,775	1,877
Global equities	**–**	**259**	**259**	546	392
Total listed securities	**114**	**1,936**	**2,050**	2,321	2,269
Unlisted securities					
Hedge funds	**–**	**158**	**158**	160	151
Commodities	**–**	**–**	**–**	45	48
Multi-asset	**–**	**258**	**258**	–	–
Loan investments	**–**	**1**	**1**	103	98
Short term deposits	**–**	**–**	**–**	241	221
Security deposits	**–**	**–**	**–**	20	20
Total unlisted securities	**–**	**417**	**417**	569	538
Market value at 30 June/31 December	**114**	**2,353**	**2,467**	2,890	2,807

	30 June 2018			30 June 2017	31 December 2017 (audited)
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Total £m**	Total £m	Total £m
Analysis of securities					
AAA	**28**	**354**	**382**	341	296
AA	**47**	**657**	**704**	864	837
A	**23**	**284**	**307**	420	408
BBB	**6**	**277**	**283**	344	320
Other	**10**	**781**	**791**	921	946
Total securities	**114**	**2,353**	**2,467**	2,890	2,807

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

10. Financial instruments

Fair value hierarchy

To provide further information on the valuation techniques used to measure assets carried at fair value, Lloyd's categorises the measurement basis for assets carried at fair value into a 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the valuation as a whole:

Level 1 – Inputs to Level 1 fair values are quoted prices in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed debt securities in active markets or listed equities in active markets or listed deposits held with credit institutions in active markets.

Level 2 – Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include quoted prices for similar (i.e. not identical) assets in active markets, quoted prices for identical or similar assets in markets that are not active or in which little information is released publicly and low volatility hedge funds where tradeable net asset values are published.

Level 3 – Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where observable inputs are not available, allowing for situations where there is little or no market activity. Unobservable inputs reflect assumptions that the Society considers that market participants would use in pricing the asset and have been based on a combination of independent third party evidence and internally developed models.

The Group's policy is to reassess the levels of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

		30 June 2018			
	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments at fair value through profit or loss					
Listed securities		834	780	–	1,614
Equity investments		259	177	–	436
Unlisted securities		–	416	1	417
Derivative financial instruments					
Currency conversion service		–	3	–	3
Other forward foreign exchange contracts		–	5	–	5
Interest rate swaps		–	6	–	6
Total derivative financial instruments		–	14	–	14
Total financial assets at fair value through profit or loss		**1,093**	**1,387**	**1**	**2,481**
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(2)	–	(2)
Other forward foreign exchange contracts		–	(6)	–	(6)
Interest rate swaps		–	(2)	–	(2)
Total derivative financial instruments		–	(10)	–	(10)
Total financial liabilities at fair value through profit or loss		**–**	**(10)**	**–**	**(10)**

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

10. Financial instruments continued

Fair value hierarchy continued

		30 June 2017			
	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments at fair value through profit or loss					
Statutory insurance deposits		–	527	–	527
Listed securities		783	992	–	1,775
Equity investments		377	169	–	546
Unlisted securities		–	290	18	308
Deposits with credit institutions		261	–	–	261
Derivative financial instruments					
Currency conversion service		–	6	–	6
Other forward foreign exchange contracts		–	7	–	7
Interest rate swaps		1	–	–	1
Total derivative financial instruments		1	13	–	14
Loans recoverable		–	–	43	43
Total financial assets at fair value through profit or loss		1,422	1,991	61	3,474
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(7)	–	(7)
Other forward foreign exchange contracts		–	(5)	–	(5)
Interest rate swaps		(3)	–	–	(3)
Total derivative financial instruments		(3)	(12)	–	(15)
Total financial liabilities at fair value through profit or loss		(3)	(12)	–	(15)

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

10. Financial instruments continued

Fair value hierarchy continued

	Note	31 December 2017 (audited) Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments at fair value through profit or loss					
Statutory insurance deposits		–	486	–	486
Listed securities		808	885	–	1,693
Equity investments		392	184	–	576
Unlisted securities		–	279	18	297
Deposits with credit institutions		–	241	–	241
Derivative financial instruments					
Currency conversion service		–	6	–	6
Other forward foreign exchange contracts		–	8	–	8
Interest rate swaps		–	2	–	2
Total derivative financial instruments		–	16	–	16
Loans recoverable		–	–	40	40
Total financial assets at fair value through profit or loss		1,200	2,091	58	3,349
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(6)	–	(6)
Other forward foreign exchange contracts		–	(2)	–	(2)
Interest rate swaps		–	(2)	–	(2)
Total derivative financial instruments		–	(10)	–	(10)
Total financial liabilities at fair value through profit or loss		–	(10)	–	(10)

The Society's senior secured loans (reported within unlisted securities) and loans recoverable are categorised within Level 3 fair values for disclosure purposes.

Unlisted securities

Senior secured loans represent corporate lending to third parties which are held directly by the Society and managed by an external specialist investment manager. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out on a monthly basis.

When specific loans are insufficiently traded, the investment manager will determine fair value based on various unobservable factors and market inputs. This approach aligns with a Level 3 classification. The Level 3 asset price estimation process involves significant judgement including the input choice. The investment manager will determine the most appropriate valuation method which may comprise of, but not be limited to, discounted cash flow models, option adjusted spread prices, trading values on comparable assets or indicative brokers quote(s).

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

10. Financial instruments continued

Fair value hierarchy continued

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third party sources in a tiered system. The standard pricing hierarchy includes the following independent pricing vendors: FT Interactive Data; Reuters; Barclays Indices; Citigroup Indices; Merrill Lynch Indices; SNP (Standard & Poor's); Markit/LoanX- senior secured loans; Broker/Dealer Pricing; Fair Value/Model Pricing and Spread Pricing.

The fair value movements during the year are recognised as finance income or finance costs in the Group income statement.

The table below sets out a reconciliation from the opening balances to the closing balances of Level 3 fair values:

	30 June 2018 £m	30 June 2017 £m	31 December 2017 (audited) £m
At 1 January	**58**	61	61
Transfers to amortised cost valuation	**(40)**	–	–
Purchases	**–**	5	10
Sales	**(13)**	(2)	(5)
Transfers to Level 2	**(4)**	(4)	(7)
Total net gain/(losses) recognised in the profit and loss	**–**	1	(1)
At 30 June/31 December	**1**	61	58

Sensitivity analysis

The majority of the Society's investments are valued based on quoted market information or other observable market data.

Unlisted securities sensitivities

Where estimates are used to value unlisted securities, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

11. Subordinated notes

	30 June 2018 £m	30 June 2017 £m	31 December 2017 (audited) £m
Details of loans payable wholly or partly after more than five years			
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	**500**	500	500
4.875% subordinated notes of £300m maturing 07 February 2047 (Sterling 2017 Notes)	**300**	300	300
Less issue costs to be charged in future years	**(4)**	(5)	(4)
Less discount on issue to be unwound in future years	**(3)**	(3)	(3)
Total subordinated notes	**793**	792	793

Subordinated notes

The Sterling 2014 Notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.750% per annum, payable annually in arrears on 30 October in each year.

The Sterling 2017 Notes issued on 7 February 2017 have a first call date on 7 February 2027 and mature on 7 February 2047 and bear interest at a rate of 4.875% per annum, payable annually in arrears on 7 February in each year.

Fair values

The fair value (based on quoted offer prices) of subordinated debt is £877m (30 June 2017: £909m; 31 December 2017: £925m).

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

12. Cash generated from operations

	Note	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m
Surplus before tax		**143**	120	187
Net finance (income)/costs	4	**(10)**	9	(7)
Share of profits of associates		**(6)**	(5)	(10)
Operating surplus		**127**	124	170
Central Fund claims and provisions incurred	3(II)	**–**	–	–
Operating surplus before Central Fund claims and provisions		**127**	124	170
Adjustments for:				
Depreciation of plant and equipment	8	**3**	3	6
Impairment losses	8	**–**	–	2
Losses on investments		**(5)**	(4)	–
Foreign exchange losses on operating activities		**–**	3	3
Operating surplus before working capital changes and claims paid		**125**	126	181
Changes in pension obligations		**2**	7	(17)
Increase in receivables		**(36)**	(59)	(161)
Increase in payables		**174**	139	215
Increase in provisions other than for Central Fund claims		**–**	2	1
Cash generated from operations before claims paid		**265**	215	219
Claims paid in respect of corporate/insolvent members		**–**	–	–
Cash generated from operations		**265**	215	219

13. Commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £2m (30 June 2017: £2m; 31 December 2017: nil). Commitments also arise under the fully repairing operating leases. These are included within provisions shown in the Group statement of financial position on page 31.

Notes to the Group Interim Financial Statements

(As at 30 June 2018)

14. Related party transactions

The Group interim financial statements include the financial statements of the Society and all of its subsidiary undertakings, the Lloyd's Central Fund and the Group's interests in its associates and joint ventures.

Services provided to Ins-sure Holdings Limited in the period ended 30 June 2018 included operating systems support and development, premises and other administrative services.

Structured Data Capture Limited has been set up as part of the London Market Target Operating Model project in order to improve the efficiency of Market Reform Contract processing and to implement standardisation of data capture across the market.

Services provided to Xchanging Claims Services Limited in the period ended 30 June 2018 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2018 included the provision of messaging infrastructure.

London Market Operations & Strategic Sourcing Limited, a Company Limited By Guarantee in which the Society holds a one third interest alongside the Lloyd's Market Association (LMA) and the International Underwriting Association (IUA), was incorporated on 7 March 2018. The Company has been set up to source and manage the market services used across the London Market including, but not limited to, those delivered out of the London Market Target Operating Model project.

The following table provides the total value of transactions that have been entered into with related parties for the relevant financial periods/year together with information regarding the outstanding balances at 30 June 2018, 30 June 2017 and 31 December 2017.

	Sales to related parties			Purchases from related parties			Amounts owed by related parties			Amounts owed to related parties		
	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m	Full year 2017 (audited) £m	**30 June 2018 £m**	30 June 2017 £m	31 December 2017 (audited) £m	**30 June 2018 £m**	30 June 2017 £m	31 December 2017 (audited) £m
Associates:												
Ins-sure Holdings Limited	**–**	–	–	**1**	2	2	**–**	–	–	**–**	–	–
Xchanging Claims Services Limited	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Joint Ventures:												
Structured Data Capture Limited	**–**	–	–	**2**	–	–	**–**	–	–	**–**	–	–
The Message Exchange Limited	**–**	–	–	**1**	–	1	**–**	–	–	**–**	–	–
London Market Operations & Strategic Sourcing Limited	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–

Transactions with associates and joint arrangements are priced on an arm's length basis.

In the normal course of business, the Society may enter into transactions with Lloyd's market businesses in which members of Council and the Board may have an interest.

Independent Review Report to the Council of Lloyd's

Report on the condensed set of Society of Lloyd's Group Interim Financial Statements

Our conclusion

We have reviewed Society of Lloyd's condensed set of Group interim financial statements (the "interim financial statements") for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

What we have reviewed

The interim financial statements comprise:

- the Group statement of financial position as at 30 June 2018;
- the Group income statement and Group statement of comprehensive income for the period then ended;
- the Group statement of cash flows for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Society of Lloyd's condensed set of Group interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Council of Lloyd's

The Society of Lloyd's condensed set of Group interim financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the Council of Lloyd's.

Our responsibility is to express a conclusion on the interim financial statements based on our review. This report, including the conclusion, has been prepared for and only for the Council of Lloyd's as a body, for management purposes, in order to fulfil its commitments to make the Society of Lloyd's more transparent and comparable to its peers and for no other purpose. Our report may not be made available to any other party without our prior written consent. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Society of Lloyd's condensed set of Group interim financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
20 September 2018

Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Interim Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value-creating potential of the Lloyd's market.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.