Interim Report 2019

Six months ended 30 June 2019

2019 At a Glance

Financial highlights

- **Lloyd's made a profit of £2,325m (June 2018: £588m)**
- **Combined ratio of 98.8% (June 2018: 95.5%)***
- **Gross written premium of £19,689m (June 2018: £19,338m)**
- **Capital, reserves and subordinated loan notes stand at £32,435m (December 2018: £28,222m)**

Gross written premium

£m	Half year	Full year
2015	15,513	26,690
2016	16,307	29,862
2017	18,881	33,591
2018	19,338	35,527
2019	**19,689**	

Result before tax

£m	Half year	Full year
2015	1,194	2,122
2016	1,461	2,107
2017	1,216	(2,001)
2018	588	(1,001)
2019	**2,325**	

Capital, reserves and subordinated debt and securities

£m	Half year	Full year
2015	22,844	25,098
2016	26,617	28,597
2017	27,979	27,560
2018	29,045	28,222
2019	**32,435**	

Central assets

£m	Half year	Full year
2015	2,655	2,645
2016	2,745	2,879
2017	2,905	2,981
2018	3,115	3,211
2019	**3,402**	

Return on capital annualised* (%)

	Half year	Full year
2015	10.7	9.1
2016	11.7	8.1
2017	8.9	(7.3)
2018	4.3	(3.7)
2019	**15.5**	

Combined ratio* (%)

	Half year	Full year
2015	89.5	90.0
2016	98.0	97.9
2017	96.9	114.0
2018	95.5	104.5
2019	**98.8**	

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 interim results, members' funds at Lloyd's (FAL) and the Society of Lloyd's interim 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 57.

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Statement from the Chief Executive

Lloyd's has been working hard to ensure the market improves its underwriting performance by remediating the worst performing sectors in the marketplace. These actions are ever more important in an insurance industry awash with capital and at a time when falling bond yields will continue to challenge the profit and loss account through the balance of 2019 and into 2020.

Therefore, whilst we are pleased to be reporting a return to profitability during the first six months of 2019, we recognise the importance of continued focus on performance management to maintain this momentum throughout the balance of 2019 and in future years.

At the same time as ensuring that our market can deliver sustainable, profitable growth, we need to make some brave choices on how to meet the expectations of our customers and all our stakeholders into the future. We launched the prospectus for The Future at Lloyd's on 1 May 2019. This document presented six possible solutions to the Lloyd's market, to enable us to become the most customer-centric digital insurance and reinsurance platform in the world. We have conducted a consultation of unprecedented scale to inform the prospectus and receive feedback on the proposals. The response highlights strong market support to deliver each of the solutions, and we will be producing the first blueprint on 30 September representing how this strategy and the associated change programme is managed and progressed.

We will make sure that the blueprint builds on the investments the market has already made in technology and in its design of products and services. The Future at Lloyd's strategy will ensure that our marketplace is ready for the challenges and opportunities presented by risk today.

We have also not hesitated to put in place a robust set of actions to tackle unacceptable behaviour around the Lloyd's market to ensure that we set the tone for a culture that encourages the brightest minds to remain in and join our industry. The centrepiece of these actions is the commissioning of a Lloyd's market-wide culture survey (supported by the Banking Standards Board), the insights of which are being developed into a set of measures to build a diverse and inclusive market in which everyone is respected and valued.

2019 interim performance

Profit before tax for the period is £2.3bn underpinned by a combined ratio of 98.8% (June 2018: profit before tax of £0.6bn and combined ratio of 95.5%). Gross written premiums for the year to June rests at £19.7bn, which represents a 1.8% increase over the same period in 2018. However, the elimination of foreign exchange rate movements and growth from new syndicates points to a like-for-like year-on-year reduction of 2.6%, being the net impact of a 6.5% reduction in business volumes and an average risk adjusted rate increase of 3.9%. These changes reflect the strengthened underwriting discipline being applied in 2019 post the underwriting performance seen in 2017 and 2018.

The reported combined ratio of 98.8% is a 3.3% increase compared to the same period in 2018 (June 2018: 95.5%). The underlying analysis is a little more encouraging: a combination of higher individual risk losses in the first half of 2019 and lower prior year releases of 0.4% in 2019 (June 2018: 3.8%) contributed to an increase in the loss ratio to 60.7% (June 2018: 56.2%); when we further analyse this the current underwriting year (2019) shows a reduction in the attritional loss ratio when compared to the 2018 underwriting year at the same point in time.

The operating expense ratio has reduced by 1.2% in the period, from 39.3% in 2018 to 38.1% in 2019. Lower administrative expenses, reflecting the continued effort by the market to manage its controllable costs, contributed a 1.5% reduction whilst there was a small increase, 0.3%, in the acquisition cost ratio from changes in the mix of business.

Investment income of £2.3bn made a significant contribution to our interim result, as the market benefitted from unrealised gains due to reducing US and UK bond yields as well as robust returns from equities in the first six months of 2019.

The quality of our balance sheet remains strong. Our overarching solvency coverage ratio has increased to 266% (December 2018: 249%). The financial strength of the market was underscored by the recent re-affirmations of our financial strength ratings by Standard & Poor's – who additionally elected to revise their outlook on our market from "negative" to "stable" – AM Best and Fitch.

Statement from the Chief Executive *continued*

Looking ahead, our strategy for the Lloyd's market includes specific initiatives to attract new funds to the market place.

This is a once-in-a-generation opportunity for the evolution of the Lloyd's market place, and an exciting time for Lloyd's to show leadership on the three key fronts of performance, strategy and culture. We are making good progress, with essential and valued support of all of our stakeholders.

John Neal
Chief Executive Officer

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 2019 is £2.3bn (June 2018: £0.6bn), with a combined ratio of 98.8% (June 2018: 95.5%) and this represents an annualised return on capital* of 15.5% (June 2018: 4.3%). The underwriting contribution to profit has reduced to £0.1bn (June 2018: £0.5bn), whilst there was a significant increase in investment income to £2.3bn representing a return* of 3.2% (June 2018: £0.2bn, return of 0.3%). The expense ratio has also reduced to 38.1% (June 2018: 39.3%; December 2018: 39.2%).

Underwriting review

Gross written premiums for the six months to June 2019 were £19.7bn (June 2018: £19.3bn) representing an increase of 1.8%. After adjusting for the impact of foreign exchange (4.2% growth), business from new syndicates (0.2% growth) and risk adjusted rate changes on renewal business (3.9% growth), the underlying decrease in gross written premium was 6.5%. This was primarily caused by syndicates exiting or re-underwriting underperforming classes of business, some of which was in response to Lloyd's challenge during the business planning approval process.

In several major lines of business, and most significantly in marine business, premium volumes have contracted, as syndicates seek to remediate performance within their portfolios. However, there has also been some isolated growth, typically in specialised lines and most significantly cyber, which continues to see more buyers come to the market.

While market conditions generally remain at historically competitive levels, price increases have been witnessed across all major lines, most notably in property and aviation. In aggregate, risk adjusted rates on renewal business increased by 3.9% (June 2018: 3.1%) at the half year stage.

The Lloyd's market's accident year ratio* for the six months to June 2019 was 99.2% (June 2018: 99.3%). There has been an increase in attritional losses on the older underwriting years, although this has been offset by improvement in the attritional ratio for the youngest 2019 underwriting year when compared to the performance of the youngest underwriting year at June 2018. Major claims have added 1.4% to the combined ratio In the first half of 2019, compared with 0.6% in the equivalent period last year, predominantly driven by claims within aviation lines of business. Conversely, the property lines of business experienced lower than average catastrophe losses in the first half of 2019 and was the only sector to experience an accident year ratio below 100%.

Prior year releases for the period were £0.1bn (June 2018: £0.5bn), reducing the overall combined ratio by 0.4% (June 2018: 3.8%). Larger releases in energy, property, and to a lesser extent motor and marine lines of business have been offset by strengthening in reinsurance, casualty and aviation lines with reserve deterioration following the Typhoon Jebi loss particularly contributing to the reinsurance strengthening.

While efforts to address performance continue across the market, the impetus to improve underwriting results must prevail. Specifically, the high operating costs and attritional loss levels remain particular concerns.

The capital base remains in a very strong position with net resources of £32.4bn, an increase on the 2018 year end position of £28.2bn. The central and market-wide solvency ratios are above risk appetite at 266% and 172% respectively (December 2018: 249% and 149%). The increase in the market-wide solvency ratio is mainly driven by an increase in eligible assets as well as an increase in the proportion of members' funds at Lloyd's held in the form of cash and other assets. The increase in the central solvency ratio is driven by an increase in Society net assets and a reduction in the central solvency capital requirement.

Investment review

Investments at Lloyd's produced a strong result for the first half of the year. Notwithstanding the turbulence seen during the period stemming from concerns over escalating trade conflict and slowing economic growth, global developed equities achieved double digit returns and solid returns were seen across the majority of growth assets. In fixed interest markets, a shift in US monetary policy stance, from tightening to accommodative, appeared to reduce investor concern and resulted in a notable fall in US government bond yields, with UK bond yields also falling, albeit to lesser extent. This has led to a strong return from the more conservative fixed interest assets with narrowing credit spreads also making a positive contribution to investment return.

* The accident year ratio, return on capital 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 57.

Market Results

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

Statement of Council's responsibilities in respect of 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 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 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.

Pro Forma Profit and Loss Account

(For the six months ended 30 June 2019)

		Six months ended 30 June 2019		Six months ended 30 June 2018		Full year 2018	
Technical account	Note	£m	£m	£m	£m	£m	£m
Gross written premiums	8	**19,689**		19,338		35,527	
Outward reinsurance premiums		**(6,186)**		(6,092)		(9,846)	
Premiums written, net of reinsurance			**13,503**		13,246		25,681
Change in the gross provision for unearned premiums		**(2,564)**		(3,190)		(789)	
Change in the provision for unearned premiums, reinsurers' share		**1,746**		1,930		286	
			(818)		(1,260)		(503)
Earned premiums, net of reinsurance			**12,685**		11,986		25,178
Allocated investment return transferred from the non-technical account			**941**		68		367
			13,626		12,054		25,545
Claims paid							
Gross amount		**11,641**		9,942		19,666	
Reinsurers' share		**(3,593)**		(2,834)		(5,682)	
			8,048		7,108		13,984
Change in provision for claims							
Gross amount		**(865)**		(782)		4,895	
Reinsurers' share		**514**		412		(2,441)	
			(351)		(370)		2,454
Claims incurred, net of reinsurance	8		**7,697**		6,738		16,438
Net operating expenses	8, 9		**4,840**		4,707		9,870
Balance on the technical account for general business			**1,089**		609		(763)
Non-technical account							
Balance on the technical account for general business			**1,089**		609		(763)
Investment return on syndicate assets		**1,130**		71		333	
Notional investment return on members' funds at Lloyd's	5	**1,051**		143		178	
Investment return on Society assets		**134**		(10)		(7)	
		2,315		204		504	
Allocated investment return transferred to the technical account		**(941)**		(68)		(367)	
			1,374		136		137
Profit/(loss) on exchange			**20**		–		(8)
Other income			**32**		22		34
Other expenses			**(190)**		(179)		(401)
Result for the financial period before tax	7		**2,325**		588		(1,001)

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the six months ended 30 June 2019)

Statement of comprehensive income	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 £m
Result for the financial period	7	**2,325**	588	(1,001)
Currency translation differences		**39**	(22)	(65)
Other comprehensive gains/(losses) in the syndicate annual accounts		**14**	(8)	(3)
Remeasurement of losses on pension assets/liabilities in the Society accounts		**(34)**	17	61
Total comprehensive income for the financial period		**2,344**	575	(1,008)

Pro Forma Balance Sheet

(As of 30 June 2019)

	Note	30 June 2019 £m	30 June 2019 £m	30 June 2018 £m	30 June 2018 £m	31 December 2018 £m	31 December 2018 £m
Investments							
Financial investments	10		**63,754**		57,375		60,363
Deposits with ceding undertakings			**36**		33		35
Reinsurers' share of technical provisions							
Provision for unearned premiums		**5,627**		5,431		3,853	
Claims outstanding		**19,469**		16,526		19,541	
			25,096		21,957		23,394
Debtors							
Debtors arising out of direct insurance operations		**10,464**		10,160		9,673	
Debtors arising out of reinsurance operations		**8,540**		8,161		7,478	
Other debtors		**2,055**		932		1,016	
			21,059		19,253		18,167
Other assets							
Tangible assets		**30**		29		27	
Cash at bank and in hand	11	**11,007**		11,550		10,877	
Other		**139**		112		125	
			11,176		11,691		11,029
Prepayments and accrued income							
Accrued interest and rent		**114**		101		123	
Deferred acquisition costs		**5,138**		4,965		4,680	
Other prepayments and accrued income		**294**		339		217	
			5,546		5,405		5,020
Total assets			**126,667**		115,714		118,008
Capital, reserves and subordinated debt							
Members' funds at Lloyd's	5	**29,002**		25,812		26,483	
Members' balances	12	**31**		118		(1,472)	
Members' assets (held severally)			**29,033**		25,930		25,011
Central reserves (mutual assets)			**2,608**		2,322		2,417
	7		**31,641**		28,252		27,428
Subordinated debt	2		**794**		793		794
Total capital, reserves and subordinated debt			**32,435**		29,045		28,222
Technical provisions							
Provision for unearned premiums		**20,483**		19,869		17,868	
Claims outstanding		**59,668**		54,477		60,450	
			80,151		74,346		78,318
Deposits received from reinsurers			**360**		201		169
Creditors							
Creditors arising out of direct insurance operations		**1,590**		1,190		1,325	
Creditors arising out of reinsurance operations		**7,441**		7,784		6,552	
Other creditors including taxation		**3,566**		2,173		2,484	
			12,597		11,147		10,361
Accruals and deferred income			**1,124**		975		938
Total liabilities			**126,667**		115,714		118,008

Approved by the Council on 17 September 2019 signed on its behalf by

Bruce Carnegie-Brown Chairman

John Neal Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the six months ended 30 June 2019)

	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 £m
Result for the financial period before tax		**2,325**	588	(1,001)
Increase/(decrease) in gross technical provisions		**1,710**	2,241	6,113
(Increase)/decrease in reinsurers' share of gross technical provisions		**(1,679)**	(1,460)	(2,918)
(Increase)/decrease in debtors		**(4,669)**	(3,934)	(2,120)
Increase/(decrease) in creditors		**3,968**	2,285	943
Movement in other assets/liabilities		**(199)**	(387)	(424)
Investment return		**(2,315)**	(204)	(504)
Depreciation		**4**	3	9
Tax paid		**(32)**	(6)	(34)
Foreign exchange		**(42)**	(304)	(809)
Other		**11**	(32)	(113)
Net cash flows from operating activities		**(918)**	(1,210)	(858)
Investing activities				
Purchase of equity and debt instruments		**(24,175)**	(23,255)	(40,927)
Sale of equity and debt instruments		**24,080**	24,909	41,316
Purchase of derivatives		**(2,413)**	(24)	(3,078)
Sale of derivatives		**2,412**	39	3,070
Investment income received		**479**	336	653
Other		**102**	(373)	(538)
Net cash flows from investing activities		**485**	1,632	496
Financing activities				
Net profits or losses paid to/(received from) members		**716**	(988)	(851)
Net capital transferred (out of)/into syndicate premium trust funds		**(208)**	749	825
Interest paid on subordinated notes		**(15)**	(15)	(38)
Net movement in members' funds at Lloyd's		**(31)**	(997)	(1,451)
Other		**41**	81	104
Net cash flows from financing activities		**503**	(1,170)	(1,411)
Net increase/(decrease) in cash and cash equivalents		**70**	(748)	(1,773)
Cash and cash equivalents at 1 January		**12,395**	14,113	14,113
Exchange differences on cash and cash equivalents		**–**	(6)	55
Cash and cash equivalents at 30 June/31 December	13	**12,465**	13,359	12,395

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2019)

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 28 to 55. 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 £160m (June 2018: £153m, December 2018: £125m). 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 £301m (June 2018: £388m, December 2018: £643m). The elimination does not affect the interim PFFS net 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.
- Syndicate loans to the Central Fund are reported as assets in the syndicate returns and as equity in the Society financial statements.
- Technical insurance-related transactions and balances existing between the syndicates and the subsidiaries of the Society are reported in both the syndicate returns and in the Society financial statements.
- 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.

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2019)

2. Basis of preparation *continued*

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

A notional investment return on members' funds at Lloyd's (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 31), 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

In accordance with the terms of the Society's subordinated debt, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated debt' in the pro forma balance sheet. Note 11 to the Society interim financial statements on page 53 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 *continued*

(At 30 June 2019)

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 2018.

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 2018 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 33 to 35. Adjustments have been made to the information incorporated into the interim PFFS where the Council have considered there to be 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 2019 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 £52m (June 2018: £451m, December 2018: £976m). The surplus arises across the energy, property, marine and motor lines 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 £29,002m (June 2018: £25,812m, December 2018: £26,483m). The notional investment return on FAL included in the non-technical profit and loss account totals £1,051m (June 2018: £143m, December 2018: £178m).

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 £234m (June 2018: £233m, December 2018: £460m) in the technical account and a loss of £2m (June 2018: loss of £123m, December 2018: loss of £266m) in the non-technical account.

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2019)

7. Aggregation of results and net assets

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

Profit and loss account	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 £m
Result per syndicate returns	**1,042**	335	(1,373)
Result of the Society	**228**	115	163
Elimination of IFRS to UK GAAP accounting basis adjustments	**(2)**	–	–
Taxation charge in Society financial statements	**53**	28	39
Notional investment return on members' funds at Lloyd's	**1,051**	143	178
Movement in Society income not accrued in syndicate returns	**(47)**	(33)	(8)
Result for the financial period before tax	**2,325**	588	(1,001)

Capital and reserves	**30 June 2019 £m**	30 June 2018 £m	31 December 2018 £m
Net assets per syndicate returns	**79**	65	(1,475)
Net assets of the Society	**2,720**	2,322	2,417
Elimination of syndicate loans and IFRS to UK GAAP accounting basis adjustments	**(112)**	–	–
Members' funds at Lloyd's	**29,002**	25,812	26,483
Unpaid cash calls reanalysed from debtors to members' balances	**37**	115	40
Society income receivable not accrued in syndicate returns	**(85)**	(62)	(37)
Total capital and reserves	**31,641**	28,252	27,428

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 *continued*

(At 30 June 2019)

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 2019	**Gross written premiums £m**	**Net earned premium £m**	**Net incurred claims £m**	**Net operating expenses £m**	**Under-writing result £m**
Reinsurance	7,288	3,821	(2,482)	(1,348)	(9)
Property	5,103	3,365	(1,794)	(1,489)	82
Casualty	4,471	3,337	(2,031)	(1,411)	(105)
Marine	1,196	1,023	(723)	(399)	(99)
Energy	806	447	(182)	(182)	83
Motor	543	473	(336)	(159)	(22)
Aviation	238	189	(130)	(73)	(14)
Life	44	30	(19)	(13)	(2)
Total from syndicate operations	**19,689**	**12,685**	**(7,697)**	**(5,074)**	**(86)**
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	**–**	**–**	**–**	**234**	**234**
Interim PFFS premiums and underwriting result	**19,689**	**12,685**	**(7,697)**	**(4,840)**	**148**
Allocated investment return transferred from the non-technical account					**941**
Balance on the technical account for general business					**1,089**

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

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2019)

9. Net operating expenses

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Full year 2018 £m
Acquisition costs	**4,840**	4,751	9,033
Change in deferred acquisition costs	**(449)**	(570)	(171)
Administrative expenses	**1,041**	1,126	2,270
Reinsurance commissions and profit participation	**(592)**	(600)	(1,262)
Total operating expenses	**4,840**	4,707	9,870

10. Financial investments

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Shares and other variable yield securities and units in unit trusts	**9,533**	9,555	8,550
Debt securities and other fixed income securities	**43,559**	38,045	41,679
Participation in investment pools	**2,259**	2,200	2,254
Loans and deposits with credit institutions	**8,314**	7,481	7,800
Other	**89**	94	80
Total investments	**63,754**	57,375	60,363

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 £7,981m at 30 June 2019 (June 2018: £8,466m, December 2018: £8,012m).

12. Members' balances

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Full year 2018 £m
Balance at 1 January	**(1,472)**	–	–
Result for the period per interim syndicate returns	**1,042**	335	(1,373)
Distribution on closure of the 2016 (2015) year of account	**71**	(1,648)	(1,656)
Advance distributions from open years of account	**(40)**	(28)	(29)
Movement in cash calls	**685**	689	834
Net movement on funds in syndicate (see note below)	**(208)**	749	825
Exchange (losses)/gains	**35**	(19)	(50)
Other	**(82)**	40	(23)
Balance at 30 June/31 December	**31**	118	(1,472)

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 2019 there was £4,873m (June 2018: £4,868m, December 2018: £5,053m) 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 *continued*

(At 30 June 2019)

13. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Cash at bank and in hand	**11,007**	11,550	10,877
Short term deposits with credit institutions	**1,818**	2,008	1,731
Overdrafts	**(360)**	(199)	(213)
Cash and cash equivalents	**12,465**	13,359	12,395

Of the cash and cash equivalents, £264m (June 2018: £524m, December 2018: £326m) 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 2019 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 2019.

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 2019 (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 2019;
- 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 or 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 part A – Quarter 2 2019 ("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 2019 Lloyd's Interim Pro Forma Financial Statements *continued*

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 16 September 2019, 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
17 September 2019

Society Report

Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society achieved an operating surplus for the period of £155m (June 2018: £127m). 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 2019 £m	Six months ended 30 June 2018 £m
Total income	**192**	**125**	**317**	285
Gross written premiums	**1,031**	**–**	**1,031**	89
Outward reinsurance premiums	**(1,031)**	**–**	**(1,031)**	(89)
Other Group operating expenses	**(160)**	**(2)**	**(162)**	(158)
Operating surplus*	**32**	**123**	**155**	127

Corporation of Lloyd's

Total income for the Corporation increased to £192m during the first half of 2019 (30 June 2018: £166m). Within this, the overseas operating charge was higher, mainly as a result of the increase in the charge rate on 1 January 2019 to partially cover the increased cost of setting up Lloyd's Insurance Company S.A. ("Lloyd's Brussels") subsidiary in readiness for Brexit. The change resulted in an £11m increase in income for the year to June 2019. Other income increased by £15m, primarily as a result of positive foreign exchange effects and an increase in income arising from User Pay services.

Gross written premiums increased significantly following the commencement of underwriting by Lloyd's Brussels. All business underwritten through the company is 100% reinsured to Lloyd's Syndicates.

Operating expenses have increased to £160m (30 June 2018: £150m). The increase is due to additional services to the market as a result of market modernisation deliveries. The Corporation continues to make investment in strategic initiatives including Setting Ourselves up for Success, Market Data Collection, Market Modernisation and the Brexit project (see further details below).

The Society has applied, for the first time, IFRS 16 Leases. As a result a right-of-use asset of £168m and a lease liability of £161m is recognised in the statement of financial position as at 30 June 2019. Adoption of the standard had net £nil impact on the Society's net assets as at 1 January 2019, and a £2m decrease on the Society's operating surplus for the six months ended 30 June 2019.

Lloyd's Central Fund

Total income for the Central Fund increased to £125m (30 June 2018: £119m) reflecting an increase in estimated 2019 year of account gross written premium compared to last year. The rate charged continued at 0.35% (1.4% for new Syndicates) of Gross Written Premium ("GWP"). There was no charge in the current or prior period in respect of claims arising within the Central 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 61.

Society of Lloyd's Group Interim Review *continued*

Investment performance

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
Finance costs	**(26)**	(20)
Finance income	**148**	30
Total finance	**122**	10

The Society's investments, mostly held within the Central Fund, returned £148m or 3.5% during the period (June 2018: £30m, 0.8%). Excluding exchange rate movements, investments returned £136m or 3.2% during the period (June 2018: £4m, 0.1%).

The investment portfolio has had a strong first half of the year. Notwithstanding the turbulence seen during the period stemming from concerns over escalating trade conflict and slowing economic growth, global developed equities achieved double digit returns. Emerging equities lagged but a solid return was achieved on growth assets overall.

A shift in US monetary policy stance, from tightening to accommodative, appeared to reduce investor concern and resulted in a notable fall in US government bond yields, with UK bond yields also falling, albeit to a lesser extent. This has led to a strong return from the more conservative core fixed interest portfolio with narrowing credit spreads also making a positive contribution.

In terms of foreign exchange movements, the US dollar appreciated against Sterling in the period, delivering a positive impact on Central Fund asset values in converted Sterling terms. 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.

Investment markets for bonds and equities remain volatile during Q3, with a tendency for asset returns to move together, as experienced during the first six months of 2019. This volatile environment makes anticipating market performance difficult and may potentially lead to significant swings in investment gains and losses in the second half of the year. As a result we remain cautious in our expectations of finance income for the full year.

Following the implementation of IFRS 16, finance costs include interest expense on the lease liability, as well as interest arising on subordinated notes. The £6m increase in finance costs primarily relates to the new lease interest expense.

Results summary

Overall, the surplus after tax for the six months to June 2019 was £228m (June 2018: a surplus of £115m). There were net other comprehensive charges in the period of £35m (June 2018: £19m surplus) driven by an increase in the pension scheme deficit. The net assets of the Society increased by £303m in the six months to June 2019 to £2,720m (31 December 2018: £2,417m).

Society of Lloyd's Group Interim Review *continued*

Solvency

The Society's solvency position is set out below. 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 Society's Central SCR (CSCR) is calculated in respect of the risks facing the Society and its Central Fund. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with the Society's rigorous capital setting rules. Only assets held centrally by the Society and its Central Fund may cover the CSCR.

The solvency valuation adjustments made by the Society include items such as valuation differences arising (such as tangible and intangible assets) 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 the Society's Tier 2 and 3 central capital exceeded 50% of the CSCR by £225m (31 December 2018: £153m).

	Six months ended 30 June 2019 £m	31 December 2018 £m
Central assets per Group statement of financial position	**2,720**	2,417
Subordinated debt	**794**	794
Total	**3,514**	3,211
Solvency valuation adjustments	**442**	436
Available central own funds to meet the Central SCR	**3,956**	3,647
Excess central own funds not eligible to cover the Central SCR	**(225)**	(153)
Eligible central own funds to meet the Central SCR	**3,731**	3,494
Central SCR	**1,400**	1,400
Central solvency ratio	**267%**	250%

Lloyd's Insurance Company S.A. ("Lloyd's Brussels")

The Society continued to work during 2019 to ensure that the Lloyd's Market will maintain access to business in the European Economic Area (EEA) after the UK leaves the European Union. Lloyd's Brussels is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the EEA. Lloyd's Brussels is a Solvency II compliant insurance company with its own Board and Executive Committee. All policies are 100% reinsured to Lloyd's Syndicates. They are therefore backed by Lloyd's unique Chain of Security capital structure, providing excellent financial security to policyholders. As such the company has the same financial ratings as the Society.

The company started writing new business from 1 January 2019. Lloyd's Brussels now accounts for the majority of the Group's insurance activities. This primarily impacts the interim financial information by increasing gross written premium to £1,031m (2018: £89m), claims and insurance expenses to £329m (2018: £93m) and the corresponding reinsurer's share of each. Insurance contract assets also increased to £1,090m (31 December 2018: £347m), while trade and other receivables increased to £1,021m (31 December 2018: £214m), with a corresponding increase in insurance contract liabilities and trade and other payables. Due to the nature of the 100% reinsurance agreements with Lloyd's Syndicates, the insurance activities of Lloyd's Brussels have net £nil impact on the statement of comprehensive income and statement of financial position.

The Society is continuing with its plans to ensure that existing non-life EEA insurance and reinsurance policies written by the Lloyd's Market can be serviced beyond the date of the UK's withdrawal from the EU, including the payment of valid insurance claims. To achieve this, the Society is proposing to transfer all relevant non-life EEA business that has been written by the Lloyd's Market between 1993 and 2018 to Lloyd's Brussels, before the end of 2020. This will be undertaken via an insurance business transfer under Part VII of the UK's Financial Services and Markets Act 2000.

Society of Lloyd's Group Interim Review *continued*

Lloyd's Brussels (continued)

In October 2018, the Society publicly stated that, in the event that the UK leaves the European Union with a "no deal" Brexit, Lloyd's underwriters will continue to honour their contractual commitments, including the payment of valid claims. The Society has continued to make the case for a public solution at the European level to enable UK firms to pay claims to EEA policyholders. On 19 February 2019, EIOPA published a set of recommendations for the insurance sector, which includes a recommendation that competent authorities in the EU should apply a legal framework or mechanism to facilitate the orderly run-off of European business. While these are only recommendations, a number of member states have already passed, or are in the process of passing, national legislation in this regard. In that context, the Society expects its approach will be respected by European regulators, pending the completion of the Part VII transfer.

The Executive Committee and senior management of the Society continue to work to assess Brexit risks, including a hard Brexit, and minimise their impact on the Society, the Lloyd's market and its policyholders. There remain significant uncertainties surrounding Brexit transition, with unknown economic and political implications for the UK. The Society is monitoring developments closely and continually developing its plans to ensure delivery of the Lloyd's business model and strategy.

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 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 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.

Principal risks currently highlighted for management focus through the Lloyd's risk framework are:

– A continued focus on sustainable market performance;
– The ability of the market to manage exposures from new classes of business, such as Cyber insurance;
– The action required to manage the financial risk from climate change;
– Delivery of major change programmes (including the Future at Lloyd's) while managing operational stretch;
– The risks associated with Brexit, including the potential for "no deal";
– Failure to implement a robust Operational Resilience Framework; and
– Evolving cyber security threats.

The status of these risks is monitored by the Risk Committee and Board.

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 2019.
– The statement from the Chief Executive and the Society 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.

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

John Neal
Chief Executive Officer

17 September 2019

Group Income Statement

(For the six months ended 30 June 2019)

	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Corporation operating income		**192**	166	352
Central Fund income		**125**	119	149
Gross written premiums		**1,031**	89	176
Outward reinsurance premiums		**(1,031)**	(89)	(176)
Total income	3	**317**	285	501
Gross insurance claims and insurance expenses incurred		**(329)**	(93)	(189)
Insurance claims and expenses recoverable from reinsurers		**329**	93	189
Other Group operating expenses		**(162)**	(158)	(362)
Operating surplus	3	**155**	127	139
Finance costs	4	**(26)**	(20)	(39)
Finance income	4	**148**	30	93
Share of profits of associates		**4**	6	9
Surplus before tax		**281**	143	202
Tax charge	5	**(53)**	(28)	(39)
Surplus for the year		**228**	115	163

Group Statement of Comprehensive Income

(For the six months ended 30 June 2019)

	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Surplus for the period/year		**228**	115	163
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement (loss)/gains on pension asset/liabilities				
UK	6	**(41)**	19	71
Associates		**–**	1	1
Tax credit/(charge) relating to items that will not be reclassified	5	**7**	(3)	(12)
Items that may be reclassified subsequently to profit or loss				
Unrealised gains on revaluation of Lloyd's Collection		**–**	–	2
Currency translation differences		**(1)**	2	4
Net other comprehensive (deficit)/surplus for the period/year		**(35)**	19	66
Total comprehensive income for the period/year		**193**	134	229

Group Statement of Financial Position

(As at 30 June 2019)

	Note	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Assets				
Intangible assets		**11**	3	6
Lloyd's Collection		**15**	13	15
Plant and equipment	7	**10**	16	12
Right-of-use asset		**168**	–	–
Deferred tax asset		**41**	24	31
Investment in associates and joint ventures		**19**	22	19
Insurance contract assets		**1,090**	359	347
Loans recoverable		**34**	38	36
Financial investments at fair value through profit and loss	8, 9	**2,760**	2,467	2,486
Financial investments at amortised cost	8	**1,198**	1,029	1,097
Trade and other receivables due within one year		**1,021**	288	214
Prepayments and accrued income		**33**	19	36
Derivative financial instruments	9	**7**	14	11
Cash and cash equivalents		**693**	628	601
Total assets		**7,100**	4,920	4,911
Equity and liabilities				
Equity				
Accumulated reserve		**2,572**	2,287	2,378
Syndicate loans	2, 10	**110**	–	–
Revaluation reserve		**15**	13	15
Translation reserve		**23**	22	24
Total equity		**2,720**	2,322	2,417
Liabilities				
Subordinated notes and perpetual subordinated capital securities	11	**794**	793	794
Insurance contract liabilities		**1,090**	359	347
Pension liabilities	6	**133**	147	90
Provisions		**24**	12	20
Loans funding statutory insurance deposits		**672**	550	625
Trade and other payables		**1,276**	557	507
Accruals and deferred income		**161**	142	70
Tax payable		**54**	28	31
Lease liability		**161**	–	–
Derivative financial instruments		**15**	10	10
Total liabilities		**4,380**	2,598	2,494
Total equity and liabilities		**7,100**	4,920	4,911

Approved and authorised for issue by the Council of Lloyd's on 17 September 2019 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the six months ended 30 June 2019)

	Note	Accumulated reserve £m	Syndicate loans reserve £m	Revaluation reserve £m	Translation reserve £m	Total equity £m
At 1 January 2018		2,155	–	13	20	2,188
Surplus for the period		115	–	–	–	115
Net other comprehensive surplus for the period		17	–	–	2	19
At 30 June 2018		2,287	–	13	22	2,322
Surplus for the period		48	–	–	–	48
Net other comprehensive surplus for the period		43	–	2	2	47
At 31 December 2018		2,378	–	15	24	2,417
Syndicate loans	2, 10	–	110	–	–	110
Surplus for the period		**228**	**–**	**–**	**–**	**228**
Net other comprehensive deficit for the period		**(34)**	**–**	**–**	**(1)**	**(35)**
At 30 June 2019		**2,572**	**110**	**15**	**23**	**2,720**

Group Statement of Cash Flows

(For the six months ended 30 June 2019)

	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Cash generated from operations	12	**232**	265	221
Tax paid		**(32)**	(6)	(34)
Net cash generated from operating activities		**200**	259	187
Cash flows from investing activities				
Purchase of plant, equipment and intangible assets	7	**(7)**	(4)	(9)
Purchase of financial investments	8	**(1,079)**	(1,408)	(2,265)
Receipts from the sale of financial investments	8	**887**	1,445	2,234
Increase in short term deposits	8	**(55)**	(235)	(196)
Dividends received from associates		**4**	3	9
Interest received		**12**	19	46
Dividends received	4	**3**	3	5
Realised gains on settlement of forward currency contracts		**1**	2	15
Net cash used in from investing activities		**(234)**	(175)	(161)
Cash flows from financing activities				
Syndicate loans		**110**	–	–
Interest paid on subordinated notes		**(15)**	(15)	(38)
Increase in borrowings for statutory insurance deposits		**47**	73	112
Lease payments		**(14)**	–	–
Net cash generated from financing activities		**128**	58	74
Net increase in cash and cash equivalents		**94**	142	100
Effect of exchange rates on cash and cash equivalents		**(2)**	(11)	4
Cash and cash equivalents at 1 January		**601**	497	497
Cash and cash equivalents at 30 June		**693**	628	601

Notes to the Group Interim Financial Statements

(As at 30 June 2019)

1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council on 17 September 2019. The Group interim financial statements comprise the consolidation of the Society and all its subsidiary undertakings, the Society'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 2019 and 30 June 2018 are unaudited. The auditor's independent review report to the Society, for the six months ended 30 June 2019, is set out on page 56.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2018 prepared under International Financial Reporting Standards (IFRS) as adopted by the EU. Their report was included in the Annual Report 2018 which was published on 26 March 2019 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 IFRS that became effective as of 1 January 2019 as stated below, are consistent with those adopted for the Society's 2018 Annual Report, which was approved on 26 March 2019. 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 IFRS standard for the period beginning 1 January 2019:

– IFRS 16 Leases

Details of the effect of this new accounting standard on the Group interim financial statements is set out below. In addition, the Society adopted the following interpretations and amendments with effect from 1 January 2019:

– Annual improvements 2015 – 2017 Cycle;
– IFRIC 23 Uncertainty over Income Tax Treatments;
– Prepayment Features with Negative Compensation – Amendments to IFRS 9;
– Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28; and
– Plan Amendment, Curtailment and Settlement – Amendments to IAS 19.

The Society's accounting policies have been updated to reflect these changes. The Council considers that the implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group interim financial statements.

IFRS 16 – Leases

IFRS 16 provides a single lessee accounting model, specifying how leases are measured, presented and disclosed. This standard replaces IAS 17 leases.

The Society transitioned to IFRS 16 in accordance with the modified retrospective approach. Under this method comparative information has not been restated, as permitted under the transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening balance sheet on 1 January 2019.

Under IFRS 16, the Society recognises lease liabilities in relation to property previously classified as 'operating leases' under IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments. Lease liabilities are discounted at the Society's incremental borrowing rate. Having conducted sensitivity analysis, the Society has applied a single portfolio incremental borrowing rate of 5.1% to all lease liabilities based on materiality.

The Society recognises a right-of-use asset in the Group statement of financial position, representing its right to use the underlying asset. A depreciation expense is recognised in the Group income statement, together with an interest expense calculated using the Society's incremental borrowing rate. There is no impact on equity upon initial recognition. The change in the accounting policy led to the Society recognising £171m of lease liabilities and a provision for contractual repair obligations of £12m, together with £179m of right-of-use assets and a prepayment of £4m in the balance sheet as at 1 January 2019.

There are immaterial reconciling items between the valuation of the lease commitments as at 31 December 2018 and 1 January 2019. All lease commitments are non-current.

Notes to the Group Interim Financial Statements *continued*
(As at 30 June 2019)

2. Principal accounting policies and conformity with IAS 34 ‘Interim Financial Reporting’ *continued*

Practical expedients applied
The Society has elected to use the following applicable practical expedients allowed by the standard on initial application:

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight when determining the lease term if the contracts contain options to extend or terminate the lease;
- The exclusion of initial direct costs from the measurement of the right-of-use asset;
- IFRS 16 has only been applied to contracts that were previously classified as leases; and
- The Society has based its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application.

The Society has also adopted the ongoing practical expedient of expensing the lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value to the Group income statement on a straight-line basis over the lease term.

Lease portfolio
The Society’s lease portfolio encompasses property in the UK, Europe, Asia and the Americas. The 1986 Building is the material component of the portfolio and accounts for 88% of the right-of-use asset value. The remaining portfolio is made up of 41 other leases, the next largest being Singapore representing 4% of the value. The Society sub-leases parts of the 1986 building for which it receives an income. Leases typically run from three to five years, with the exception of the 1986 building, Kent Science Park and the premises in Chatham, which have total lease durations of 35 years, 25 years and 15 years respectively.

Rental payments are either fixed, subject to rent reviews or are index-linked. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and is subject to testing for impairment if there is an indicator for impairment.

The application of IFRS 16 requires management to make judgements that affect the valuation of the lease liabilities and the valuation of the right-of-use assets. These include: determining contracts in scope of IFRS 16; determining the contract term and the term over which to depreciate the asset; payments to be included in the valuation; and determining the interest rate used for the discounting of future cash flows.

The Society has contractual obligations to carry out repairs at the end of some leases. Contractual repair obligations are recognised in full on commencement of the lease and a finance expense charged to the Group income statement. The contractual repair obligation is capitalised at the inception of the lease and depreciated over the lease term.

Extension and termination options
The lease term determined by the Society comprises;

- Non-cancellable period of lease contracts covered by an option to extend the lease if the Society is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the Society is reasonably certain that it will not exercise that option.

Variable lease payments
Lease payments generally include fixed payments and variable payments that depend on an index (such as an inflation index). Leases with variable lease payments are immaterial. When the lease contains an extension or purchase option that the Society considers reasonably certain to be exercised, the cost of the option is included in the lease payments.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

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

IFRS 17 – Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 as replacement for IFRS 4, Insurance contracts. The exposure draft of proposed amendments to IFRS 17 was published at the end of June 2019. The effective date of the standard is 1 January 2022.

Implementation of IFRS 17 is expected to have a material impact on the Society's consolidated financial statements, 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. However, as the business is fully reinsured, the impact on the operating surplus and surplus for the year is not expected to be material. Proposed amendments to IFRS 17 announced by the IASB in 2019 are expected to further reduce the impact.

With the extent of the changes expected to the Society's consolidated financial statements, the Society continues to review the approach to IFRS 17 implementation and possible alternative solutions.

Further information on the Society's current accounting policy for insurance contracts is provided in the 2018 Annual Report.

Syndicate loans

Syndicate loans to the Central Fund were issued on 29 March 2019, increasing equity by £110m. The loan issue will strengthen the Society's central resources and facilitate the injection of capital to Lloyd's Insurance Company S.A.

The amount collected is based on a percentage of the Syndicate gross written premium forecast. The loans are treated as equity as there is no contractual obligation to settle the loans and the Society may elect not to settle at its sole discretion (other than on liquidation). Further details on Syndicate loans can be found in Note 10.

Notes to the Group Interim Financial Statements *continued*
(As at 30 June 2019)

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 purpose is 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 (primarily Lloyd's Insurance Company (China) Limited and Lloyd's Insurance Company S.A.) are included within this business segment. Both subscription income and expenses for the Corporation of Lloyd's are generally recognised evenly throughout the period. As noted in the financial review, Lloyd's Brussels started writing new business from 1 January 2019. As a result, premiums, claims, insurance expenses and corresponding insurance contract assets and liabilities have increased significantly in the current period. All policies are 100% reinsured to Lloyd's Syndicates, therefore the insurance activities have net £nil impact on the Group statement of comprehensive income and statement of financial position.
– 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. Central Fund contribution income is estimated and recognised in full during the first half of the year.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

3. Segmental analysis *continued*

Information by business segment	Note	Six months ended 30 June 2019 Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Segment income				
Total income		**192**	**125**	**317**
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(329)	–	(329)
Insurance claims and expenses recoverable from reinsurers		329	–	329
Other Group operating expenses:		–	–	–
Employment (including pension costs)		(83)	–	(83)
Premises		(22)	–	(22)
Legal and professional		(21)	(1)	(22)
Systems and communications		(17)	–	(17)
Other		(17)	(1)	(18)
Total other Group operating expenses		**(160)**	**(2)**	**(162)**
Total segment operating expenses		**(160)**	**(2)**	**(162)**
Total segment operating surplus		**32**	**123**	**155**
Finance costs	4	(5)	(21)	(26)
Finance income	4	8	140	148
Share of profits of associates		4	–	4
Segment surplus before tax		**39**	**242**	**281**
Tax charge	5			(53)
Surplus for the year				**228**
Segment assets and liabilities				
Financial investments	8	1,144	2,814	3,958
Cash and cash equivalents		496	197	693
Other assets		2,083	325	2,408
Segment assets		3,723	3,336	7,059
Tax assets		41	–	41
Total assets		3,764	3,336	**7,100**
Segment liabilities		(3,491)	(835)	(4,326)
Tax liabilities		(43)	(11)	(54)
Total liabilities		(3,534)	(846)	**(4,380)**
Total equity		230	2,490	**2,720**

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

3. Segmental analysis *continued*

Information by business segment	Note	Six months ended 30 June 2018 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 and insurance expenses incurred		(93)	–	(93)
Insurance claims and expenses recoverable from reinsurers		93	–	93
Other Group operating expenses:				
Employment (including pension 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	–	(20)	(20)
Finance income	4	7	23	30
Share of profits of associates		6	–	6
Segment surplus before tax		**29**	**114**	**143**
Tax charge	5			(28)
Surplus for the year				**115**
Segment assets and liabilities				
Financial investments	8	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 *continued*

(As at 30 June 2019)

3. Segmental analysis *continued*

Information by business segment	Note	Full year 2018 (audited) Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Segment income				
Total income		**352**	**149**	**501**
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(189)	–	(189)
Insurance claims and expenses recoverable from reinsurers		189	–	189
Other Group operating expenses:				
Employment (including pension costs)		(164)	–	(164)
Premises		(55)	–	(55)
Legal and professional		(50)	(1)	(51)
Systems and communications		(43)	–	(43)
Other		(38)	(11)	(49)
Total other Group operating expenses		**(350)**	**(12)**	**(362)**
Total segment operating expenses		**(350)**	**(12)**	**(362)**
Total segment operating surplus		**2**	**137**	**139**
Finance costs	4	–	(39)	(39)
Finance income	4	14	79	93
Share of profits of associates		9	–	9
Segment surplus before tax		**25**	**177**	**202**
Tax charge	5			(39)
Surplus for the year				**163**
Segment assets and liabilities				
Financial investments	8	1,064	2,519	3,583
Cash and cash equivalents		439	162	601
Other assets		362	334	696
Segment assets		**1,865**	**3,015**	**4,880**
Tax assets		31	–	31
Total assets		**1,896**	**3,015**	**4,911**
Segment liabilities		**(1,627)**	**(836)**	**(2,463)**
Tax liabilities		(36)	5	(31)
Total liabilities		**(1,663)**	**(831)**	**(2,494)**
Total equity		**233**	**2,184**	**2,417**

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

3. Segmental analysis *continued*

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

Net central assets	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Central Fund				
Net assets 1 January		**2,184**	2,043	2,043
Operating surplus		**123**	112	140
Intra-Group transactions		**(1)**	(1)	(3)
Net finance income		**119**	3	40
Tax charge		**(45)**	(21)	(36)
Syndicate loans issued	2, 10	**110**	–	–
Net assets as at 30 June/31 December		**2,490**	2,136	2,184
Corporation of Lloyd's and subsidiary undertakings		**230**	186	233
Net society assets at 30 June/31 December		**2,720**	2,322	2,417
Subordinated notes		**794**	793	794
Net central assets excluding subordinated debt liabilities		**3,514**	3,115	3,211

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

During the six months ended 30 June 2019, 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 2019 will be based on 2019 gross written premiums, the quantification of which will not be known until 2020. The £125m (Central Fund contributions) and £65m (members' subscriptions) included in the 2019 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 within 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 2019, no Undertakings were paid to corporate members (30 June 2018: nil; 31 December 2018: nil).

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

4. Finance

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
a) Finance costs			
Interest payable on financial liabilities measured at amortised cost	**(19)**	(20)	(38)
Amortisation of issue costs and discount	**–**	–	(1)
Other finance costs	**(7)**	–	–
Total finance costs	**(26)**	(20)	(39)
b) Finance income			
Bank interest received	**7**	6	11
Dividends received	**3**	3	5
Other returns on investments designated at fair value through profit or loss	**140**	21	77
Decrease in valuation of loans recoverable designated at fair value through profit or loss	**(2)**	–	–
Total finance income	**148**	30	93

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

5. Taxation

Tax charge	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Current tax:			
Corporation tax based on profits for the year at 19% (2018: 19%)	**(54)**	(28)	(42)
Adjustments in respect of previous years	**–**	(1)	(12)
Foreign tax suffered	**(1)**	(1)	(4)
Total current tax	**(55)**	(30)	(58)
Deferred tax:			
Origination and reversal of timing differences			
Current year	**2**	2	8
Prior year	**–**	–	11
Tax charge recognised in the Group income statement	**(53)**	(28)	(39)
Analysis of tax charge recognised in the Group statement of comprehensive income:			
Tax credit/(charge) on actuarial loss on pension liabilities:			
Group	**7**	(3)	(12)
Associates	**–**	–	–
Tax credit/(charge) recognised in the Group statement of comprehensive income	**7**	(3)	(12)
Total tax charge	**(46)**	(31)	(51)

Reconciliation of effective tax rate	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Surplus on ordinary activities before tax	**281**	143	202
Corporation tax at 19% (2018: 19%)	**(53)**	(27)	(38)
Expenses not deductible for tax purposes	**(1)**	(1)	(3)
Overseas tax	**1**	–	3
Share of profit of associates	**1**	1	2
Deferred tax adjustment relating to change in tax rate	**(1)**	–	(2)
Deferred tax prior year adjustments	**–**	–	11
Current tax prior year adjustments	**–**	(1)	(12)
Tax charge	**(53)**	(28)	(39)

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 Group 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 2016 Budget on 16 March 2016 and substantively enacted in September 2016.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

6. Pension schemes

Lloyd's operates a number of defined benefit pension schemes. These schemes are generally funded by the payment of contributions to separately administered funds. The principal scheme is the Lloyd's Pension Scheme. Other schemes have been established for certain employees based overseas.

Defined benefit pension schemes

Pension scheme deficits	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Defined benefit schemes			
Lloyd's Pension Scheme	**(130)**	(144)	(87)
Overseas pension schemes	**(3)**	(3)	(3)
Total scheme deficits	**(133)**	(147)	(90)

The Lloyd's Pension Scheme

The Lloyd's Pension Scheme is a defined benefit pension scheme with assets held in a separately administered fund. The Scheme provides pensions to members on retirement, as well as benefits on the death of members. The Scheme operates in accordance with the Scheme's Trust Deed and Rules and relevant legislation. A Board of Trustees manage and administer the Scheme; they are primarily responsible for ensuring that members are paid the correct benefits at the correct time, and that there are sufficient Scheme assets to pay benefits as they fall due.

The Lloyd's Pension Scheme closed to new members in 2013 and closed to future accrual for existing members on 30 June 2018. Existing members of the Scheme at that time were enrolled into the Group Personal Pension Plan for future pension benefits.

On an IAS 19 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2019 was £130m (30 June 2018: deficit of £144m; 31 December 2018: deficit of £87m) before the allowance of deferred tax.

An actuarial pre-tax loss of £41m has been recognised in the six months ended 30 June 2019 (30 June 2018: £19m gain; 31 December 2018: £71m gain). The loss is due to a reduction in the discount rate from 2.9% to 2.3% driven by a decrease in bond yields.

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

	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Actuarial value of scheme liabilities at 1 January	**860**	957	957
Interest cost on pension scheme liabilities	**12**	11	23
Current service cost (net of employee contributions)	**–**	4	5
Employee contributions	**–**	1	1
Benefits paid	**(14)**	(16)	(30)
Experience losses arising in scheme liabilities	**1**	–	10
Scheme amendments	**–**	–	3
Change in assumptions underlying the present value of the scheme liabilities			
Demographic assumption change	**–**	–	(27)
Financial assumption change	**101**	(26)	(82)
Actuarial value of scheme liabilities at 30 June/31 December	**960**	931	860

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

6. Pension schemes *continued*

Changes in fair value of plan assets were:

	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Fair value of scheme assets at 1 January	**773**	796	796
Expected return on Pension Scheme assets	**11**	9	19
Employer contributions	**–**	3	15
Employee contributions	**–**	1	1
Benefits paid	**(14)**	(16)	(29)
Actuarial gain/(loss) on Scheme assets	**60**	(6)	(28)
Administrative expenses	**–**	–	(1)
Fair value of scheme assets at 30 June/31 December	**830**	787	773

The last formal actuarial valuation of the Scheme was carried out by Willis Towers Watson as at 30 June 2016 using the projected unit credit method. 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. A recovery plan is in place and has been agreed with the Trustees. The next formal actuarial valuation will be carried out as at 30 June 2019 and the results of this will be considered to determine whether a revised recovery plan is required.

Employee contributions and employer contributions are £nil for the period. The Lloyd's Pension Scheme closed to future accrual for members on 30 June 2018.

Sensitivity of pension obligation to changes in assumptions

A change of 1% pa in the discount rate to be adopted as at 30 June 2019 would result in a change to the balance sheet liabilities at that date of around 20%, or approximately £192m.

A change of 1% pa in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2019, which would change future expectations of pension increases and deferred revaluation, would result in a change to the balance sheet liabilities at that date of around 10%, or approximately £96m.

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 2019 would be around 3% higher, or approximately £29m.

Overseas pension schemes

The Corporation also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2019 is £3m (30 June 2018: £3m; 31 December 2018: £3m).

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

7. Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 1 January 2018	35	25	60
Additions	1	–	1
Disposals	(1)	–	(1)
At 30 June 2018	35	25	60
Additions	2	–	2
Disposals	–	(3)	(3)
At 31 December 2018	37	22	59
Additions	1	–	1
Disposals	(1)	–	(1)
At 30 June 2019	**37**	**22**	**59**
Depreciation and impairment			
At 1 January 2018	22	20	42
Depreciation charge for the period	2	1	3
Disposals	(1)	–	(1)
At 30 June 2018	23	21	44
Depreciation charge for the period	1	1	2
Impairment losses	4	–	4
Disposals	–	(3)	(3)
At 31 December 2018	28	19	47
Depreciation charge for the period	2	1	3
Disposals	(1)	–	(1)
At 30 June 2019	**29**	**20**	**49**
Net book value at 30 June 2019	**8**	**2**	**10**
Net book value at 31 December 2018	9	3	12
Net book value at 30 June 2018	12	4	16

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

8. Financial investments

Financial investments	**30 June 2019 £m**	30 June 2018 £m	31 December 2018 (audited) £m
Financial investments at amortised cost			
Statutory insurance deposits	**675**	553	629
Short term and security deposits	**523**	476	468
Total financial investments at amortised cost	**1,198**	1,029	1,097
Financial investments at fair value through profit and loss	**2,760**	2,467	2,486
Financial investments	**3,958**	3,496	3,583

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

8. Financial investments *continued*

(a) Financial investments at amortised cost

Statutory insurance deposits	Securities £m	Deposits £m	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Amortised cost at 1 January	11	618	629	486	486
Additions at cost	13	316	329	294	481
Disposal proceeds	(13)	(275)	(288)	(233)	(369)
Surplus on the sale and revaluation of investments	–	5	5	6	31
Value at 30 June/31 December	**11**	**664**	**675**	553	629

Analysis of statutory insurance deposits	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
AAA	1	81	1
AA	391	241	371
A	263	211	238
BBB	8	9	8
Other	12	11	11
Total of statutory insurance deposits	**675**	553	629

Analysis of short term and security deposits	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
AAA	12	158	20
AA	140	89	–
A	256	144	348
BBB	115	85	100
Other	–	–	–
Total of short term and security deposits	**523**	476	468

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

8. Financial investments *continued*

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

	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Fair value at 1 January	146	2,340	2,486	2,807	2,807
Transfers to amortised cost	–	–	–	(241)	(241)
Additions at cost	61	689	750	1,114	1,784
Disposal proceeds	(60)	(539)	(599)	(1,212)	(1,865)
Surplus on the sale and revaluation of investments	–	123	123	(1)	1
Fair value at 30 June/31 December	**147**	**2,613**	**2,760**	2,467	2,486
Analysis of securities:					
Listed securities					
Fixed interest:					
Government	105	847	952	834	974
Corporate securities	42	677	719	780	678
Total Fixed interest	147	1,524	1,671	1,614	1,652
Emerging markets	–	109	109	177	164
Global equities	–	424	424	259	249
Fixed income absolute return fund	–	101	101	–	–
Total listed securities	**147**	**2,158**	**2,305**	2,050	2,065
Unlisted securities					
Hedge funds	–	167	167	158	158
Multi-asset	–	288	288	258	263
Loan investments	–	–	–	1	–
Total unlisted securities	**–**	**455**	**455**	417	421
Fair value	**147**	**2,613**	**2,760**	2,467	2,486

Analysis of securities:	2019 Corporation of Lloyd's £m	2019 Lloyd's Central Fund £m	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
AAA	32	325	357	382	422
AA	73	600	673	704	630
A	27	461	488	307	381
BBB	15	224	239	283	311
Other	–	1,003	1,003	791	742
Total securities	**147**	**2,613**	**2,760**	2,467	2,486

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

9. Financial instruments

Fair value hierarchy

To provide further information on the valuation techniques used to measure assets and liabilities carried at fair value, the Society 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, 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.

	30 June 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Listed securities	946	725	–	1,671
Equity investments	372	161	–	533
Unlisted securities	–	556	–	556
Derivative financial instruments				
Currency conversion service	–	5	–	5
Other forward foreign exchange contracts	–	1	–	1
Interest rate swaps	–	1	–	1
Total derivative financial instruments	–	7	–	7
Total financial assets at fair value through profit or loss	1,318	1,449	–	2,767
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	(3)	–	(3)
Other forward foreign exchange contracts	–	(8)	–	(8)
Interest rate swaps	–	(4)	–	(4)
Total derivative financial instruments	–	(15)	–	(15)
Total financial liabilities at fair value through profit or loss	–	(15)	–	(15)

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

9. Financial instruments *continued*

Fair value hierarchy *continued*

	30 June 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets 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 *continued*
(As at 30 June 2019)

9. Financial instruments *continued*
Fair value hierarchy *continued*

	31 December 2018 (audited)			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Listed securities	772	880	–	1,652
Equity investments	249	164	–	413
Unlisted securities	–	421	–	421
Derivative financial instruments				
Currency conversion service	–	1	–	1
Other forward foreign exchange contracts	–	6	–	6
Interest rate swaps	–	4	–	4
Total derivative financial instruments	–	11	–	11
Total financial assets at fair value through profit or loss	1,021	1,476	–	2,497
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	(1)	–	(1)
Other forward foreign exchange contracts	–	(8)	–	(8)
Interest rate swaps	–	(1)	–	(1)
Total derivative financial instruments	–	(10)	–	(10)
Total financial liabilities at fair value through profit or loss	–	(10)	–	(10)

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 *continued*

(As at 30 June 2019)

9. 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.

Sensitivity analysis

The Society's investments are held in both listed securities and unlisted funds, these 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.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

10. Syndicate loans

	30 June 2019 £m	30 June 2018 £m	Full year 2018 (audited) £m
2019 Syndicate loans	**110**	–	–
Principal loan balance and Syndicate loans	**110**	–	–

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holders' right to receive payment is confirmed. At 30 June 2019 the cumulative interest to date, not yet confirmed, totals £1m (30 June 2018: nil; 31 December 2018: nil).

11. Subordinated notes

	30 June 2019 £m	30 June 2018 £m	31 December 2018 (audited) £m
Details of loans payable wholly or partly after more than five years:			
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	**300**	300	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	**500**	500	500
	800	800	800
Less issue costs to be charged in future years	**(4)**	(4)	(4)
Less discount on issue to be unwound in future years	**(2)**	(3)	(2)
Total	**794**	793	794

Subordinated notes

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

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.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

12. Cash generated from operations

	Note	**Six months ended 30 June 2019 £m**	Six months ended 30 June 2018 £m	Full year 2018 (audited) £m
Surplus before tax		**281**	143	202
Net finance income	4	**(122)**	(10)	(54)
Share of profits of associates		**(4)**	(6)	(9)
Operating surplus		**155**	127	139
Adjustments for:				
Amortisation of intangible assets		**1**	–	–
Depreciation of plant and equipment	7	**3**	3	5
Depreciation of right-of-use asset		**11**	–	–
Impairment losses	7	**–**	–	4
Losses on investments		**–**	(5)	–
Operating surplus before working capital changes and claims paid		**170**	125	148
Changes in pension obligations		**1**	2	(3)
(Increase)/decrease in receivables		**(1,570)**	(36)	45
Increase in payables		**1,627**	174	27
Increase in provisions other than for Central Fund Claims		**4**	–	4
Cash generated from operations		**232**	265	221

13. Commitments

There are no capital expenditure commitments contracted but not provided for in the financial statements in the period to 30 June 2019 (30 June 2018: £2m; 31 December 2018: nil). Commitments do arise under the fully repairing operating leases. These are included within provisions shown in the Group statement of financial position on page 30.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2019)

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 2019 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 2019 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2019 included the provision of messaging infrastructure.

London Market Operations & Strategic Sourcing Limited was 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.

There were no sales to related parties during the period (30 June 2018: nil; 31 December 2018: nil).

There were purchases of £1m from Ins-sure Holdings Limited (30 June 2018: £1m; 31 December 2018: £2m), no purchases from Structured Data Capture Limited (30 June 2018: £2m; 31 December 2018: £2m), no purchases from The Message Exchange Limited (30 June 2018: £1m; 31 December 2018: £2m) and no purchases from London Market Operations and Strategic Sourcing Limited (30 June 2018: £nil; 31 December 2018: £3m) in the period to 30 June 2019. There were no other purchases from related parties during the period.

At 30 June 2019 no amounts were owed to In-sure Holdings Limited (30 June 2018: £nil; 31 December 2018: £1m). There were no other amounts owed to related parties as at 30 June 2019.

There were no amounts owed by related parties at 30 June 2019, 30 June 2018 or 31 December 2018.

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 Society of Lloyd's condensed interim financial statements

Our conclusion

We have reviewed Society of Lloyd's condensed interim financial statements (the "interim financial statements") for the 6 month period ended 30 June 2019. 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 2019;
– the Group 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 Report 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 Report, 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. 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 Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
17 September 2019

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 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.