LLOYD'S

Interim Report 2017

Six months ended 30 June 2017

0.0

Overview
2017 At a Glance

Financial Highlights

— Lloyd's made a profit of £1,216m (2016: £1,461m)
— Combined ratio of 96.9% (2016: 98.0%)*
— Gross written premium of £18,881m (2016: £16,307m)
— Capital, reserves and subordinated loan notes stand at £27,979m (2016: £26,617m)

Gross written premium

£m	Half Year	Full Year
2013	15,496	25,615
2014	14,481	25,259
2015	15,513	26,690
2016	16,307	29,862
2017	18,881	

Result before tax

£m	Half Year	Full Year
2013	1,379	3,205
2014	1,652	3,016
2015	1,194	2,122
2016	1,461	2,107
2017	1,216	

Capital, reserves and subordinated debt and securities

£m	Half Year	Full Year
2013	20,873	21,107
2014	20,780	23,413
2015	22,844	25,098
2016	26,617	28,597
2017	27,979	

Central assets

£m	Half Year	Full Year
2013	2,362	2,384
2014	2,447	2,578
2015	2,655	2,645
2016	2,745	2,879
2017	2,905	

Return on capital annualised*

%	Half Year	Full Year
2013	14.0	16.2
2014	16.3	14.1
2015	10.7	9.1
2016	11.7	8.1
2017	8.9	

Combined ratio*

%	Half Year	Full Year
2013	86.9	86.8
2014	87.4	88.4
2015	89.5	90.0
2016	98.0	97.9
2017	96.9	

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

*The return on capital and the combined ratio are considered to be 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 considered to be Alternative Performance Measures (APMs), with further information available on pages 56 and 57.

1.0

Contents

1.0 Introduction

2.0 Market Results

3.0 Society Report

1.1

Statement from the Chief Executive

The challenging market conditions that have shaped the insurance sector over recent years showed no sign of abating in the first six months of 2017. The pressure of low interest rates and incoming capital may be something we are all too familiar with, but it has not lessened their impact on the specialist insurance and reinsurance sector.

In these conditions, where there remains severe pressure on pricing across all lines of business, the Lloyd's market profit of £1.22bn (June 2016: £1.46bn), bolstered by a reduced combined ratio of 96.9% (June 2016: 98.0%), for the first six months of 2017 is a solid result.

We have continued to operate in an exceptionally benign loss period through the first half of the year, although this has been offset by a reduction in prior year reserve releases, totalling £0.19bn for the period (June 2016: £0.60bn).

While pricing remains under pressure, volumes have seen continued growth, driven in part by the development of new products in critical areas such as cyber. Gross written premiums increased by 16% to £18.9bn (June 2016: £16.3bn), including the effect of foreign exchange movements. After adjusting for the impact of foreign exchange movements the underlying increase in gross written premiums was 4.7%.

Lloyd's has continued its relentless focus on maintaining strong underwriting discipline and profitable lines of business, whilst addressing underperforming lines of business.

This approach has shown some early signs of success with a 78% improvement in the underwriting result for the first six months of 2017, compared with the same period last year. While this is encouraging, the make-up of the results is dominated by investment income, which continues to buoy the profit of the market.

Investment return marginally declined to 1.5% compared with 2016 (June 2016: 1.8%), but remained solid in most asset classes, thanks to more stable financial markets in the first six months of 2017.

Lloyd's capital position remains strong, with net resources totalling £28bn and an annualised return on capital of 8.9%. We issued a Tier 2 subordinated bond in January 2017, which enabled Lloyd's to refinance its debt thereby maintaining stable coverage of solvency capital requirements. Our excellent ratings remain in place, demonstrating Lloyd's strong financial position. Fitch recently reaffirmed our rating of AA- (very strong), as did Standard & Poor's at A+ (strong) and A.M. Best at A (excellent).

There remains considerable global economic and political uncertainty, which will continue to influence risk management and risk protection behaviour. As the UK Government continues its negotiations to exit the European Union, Lloyd's has been committed to providing certainty to market participants and our customers based within the EU27.

We announced in March we would formally apply to open a subsidiary company in Brussels. For the first time, Lloyd's will have a physical, capitalised presence in mainland Europe. This will present us with new opportunities to grow our EU business over the coming years. It will be a fully operational, capitalised insurance company and Solvency II compliant. It will be regulated by and report directly to the Belgian regulator.

Lloyd's continues to grow in our other established markets, driven by coverholder and specialty insurance growth. The pace of Excess and Surplus lines growth in the United States in the first half remained strong, maintaining Lloyd's leading position in the sector. We were also delighted to formally open the Lloyd's India branch after many years of hard work.

Internally a key focus has been to ensure that we are working as effectively and efficiently as possible for the market, delivering real value for money. The Corporation Operating Model (COM) programme currently being rolled out will ensure that we are fit-for-purpose, with cost-efficient, streamlined services. This new operating model enables us to focus on the role market participants expect from us; to protect, promote and provide the services they need.

1.1

Statement from the Chief Executive continued

Modernisation efforts across the market continue to gain momentum. With a number of solutions now rolled out, a concerted effort across the market towards adoption will be critical to the London Market Target Operating Model programme's success. For London to maintain its position as the global leader in specialist insurance and reinsurance, modernisation will remain front and centre for Lloyd's as we continue to build on the successes so far.

Recent natural catastrophes around the world have underlined the importance of what we do as a sector and a market. These are the times when we must act with speed and urgency, to help people, businesses and communities get back on their feet as quickly as possible. We have been working hard on responding to claims and, in the case of storms Harvey and Irma, have already paid out significant amounts in Texas and Florida. We continue to work closely with brokers, coverholders, and customers to make sure they are receiving the support and the service that the Lloyd's reputation has been founded on.

Our strong capital credentials, described earlier, demonstrate that Lloyd's is in robust financial shape, ensuring that we are more than ready to bear the financial impact of these events.

I would like to welcome our new Chairman Bruce Carnegie-Brown, now three months into the job. Although we undoubtedly face another tough six months exacerbated by recent catastrophic loss events, I am confident that we have in place a highly experienced leadership team who are taking action to address the challenges going into the second half of 2017, and into the future.

Inga Beale
Chief Executive Officer

1.2

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 underlying profit (excluding foreign exchange gains and losses) for the first six months of 2017 was £1.24bn (June 2016: £1.16bn). After including foreign exchange items, the pre-tax profit is £1.22bn (June 2016: £1.46bn), with a combined ratio of 96.9% (June 2016: 98.0%) and this represents a return on capital of 8.9% (June 2016: 11.7%). The underwriting contribution to profit improved to £0.37bn (2016: £0.21bn), whilst the investment return* remained stable at £1.04bn or 1.5% (June 2016: £1.09bn, 1.8%).

Underwriting review

Gross written premiums for the six months to June 2017 were £18.88bn (June 2016: £16.31bn) representing an increase of 16%. After adjusting for the impact of foreign exchange rate movements the underlying increase in gross written premium was 4.7%. Pricing levels have continued to decline, however these have been offset by continued increases in volume.

Adjusted for foreign exchange, real growth has been driven primarily by Property insurance (US binding authorities); proportional treaty reinsurance lines; Casualty, particularly US professional lines and cyber; and Specialty, notably political risks. Much of this growth is in new products (e.g. cyber), and from traditional distribution channels (US surplus lines). In other major lines of business such as Marine, Aviation, Energy and Property Catastrophe premium has been more stable or contracting. Market conditions remain intensely competitive across all major lines with the aggregate risk adjusted rate on renewal business reducing 2.3% (June 2016: 3.5%) at the half year stage.

The Lloyd's market's year accident year ratio* for the six months to June 2017 was 98.5% (June 2016: 103.7%). This improvement is partly explained by an exceptionally benign period when it comes to catastrophe and large losses. Major losses added 1.9% to the combined ratio for the first half of 2017 compared with 5.7% in the equivalent period last year. A higher level of losses has been noted in the Casualty lines, particularly financial and professional lines in the US and Motor, affecting both insurance and treaty reinsurance portfolios. The effect of the change in the Ogden discount rate on 27 February 2017 has been well publicised. The largest loss, affecting Energy and Property, was the explosion at a refinery in Abu Dhabi in January this year.

Prior year reserve releases for the period were £0.19bn (June 2016: £0.60bn) reducing the overall combined ratio by 1.6% (June 2016: 5.7%). Actual claims development was not as good as previous years, one factor being the impact of the Ogden discount rate change announced earlier this year. Reserve strengthening has occurred in the Property and Motor lines of business, offsetting the releases in other lines.

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

The balance sheet reports stable market level capital and reserves of £27.98bn, a small decrease on the year end figure of £28.60bn. The capital base remains in a strong position to meet challenges in the second half of the year.

Investment review

A positive economic backdrop combined with improving sentiment around political risk and deflation led to a period of stability for financial markets in the first six months of 2017. Investment returns were solid across most asset types with little exception. Return from equity type investments was strong and conservative allocations to this sector served to enhance return. Performance within the investment grade fixed income sector, where the bulk of assets are invested, was weaker by comparison. Corporate bonds displayed a degree of credit spread contraction in line with the general 'risk-on' sentiment whilst government bonds contributed income from running yield.

*The accident year ratio and the investment return are considered to be 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 considered to be Alternative Performance Measures (APMs), with further information available on pages 56 and 57.

2.0

Market Results

2.1

Market Results

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

Statement of Council's responsibilities

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

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

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

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

Interim pro forma financial statements (interim PFFS)

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 in 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.

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

Society of Lloyd's Group interim financial statements

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

2.2

Market Results

Pro Forma Profit and Loss Account (For the six months ended 30 June 2017)

		Six months ended 30 June 2017		Six months ended 30 June 2016		Full year 2016	
Technical account	Note	£m	£m	£m	£m	£m	£m
Gross written premiums		18,881		16,307		29,862	
Outward reinsurance premiums		(5,412)		(4,324)		(6,796)	
Premiums written, net of reinsurance			13,469		11,983		23,066
Change in the gross provision for unearned premiums		(3,291)		(2,876)		(723)	
Change in the provision for unearned premiums, reinsurers' share		1,803		1,426		317	
			(1,488)		(1,450)		(406)
Earned premiums, net of reinsurance			11,981		10,533		22,660
Allocated investment return transferred from the non-technical account			490		630		713
			12,471		11,163		23,373
Claims paid							
Gross amount		8,183		6,168		13,913	
Reinsurers' share		(1,654)		(1,044)		(2,431)	
			6,529		5,124		11,482
Change in provision for claims							
Gross amount		804		1,643		2,861	
Reinsurers' share		(423)		(719)		(1,356)	
			381		924		1,505
Claims incurred, net of reinsurance			6,910		6,048		12,987
Net operating expenses	9		4,705		4,279		9,205
Balance on the technical account for general business			856		836		1,181
Total			856		836		1,181
Non-technical account							
Balance on the technical account for general business			856		836		1,181
Investment return on syndicate assets		616		710		810	
Notional investment return on members' funds at Lloyd's	5	329		223		363	
Investment return on Society assets		90		154		172	
		1,035		1,087		1,345	
Allocated investment return transferred to the technical account		(490)		(630)		(713)	
			545		457		632
Profit/(loss) on exchange			(28)		301		578
Other income			33		36		77
Other expenses			(190)		(169)		(361)
Result for the financial period before tax	7		1,216		1,461		2,107

2.3

Market Results

Pro Forma Statement of Comprehensive Income (For the six months ended 30 June 2017)

Statement of comprehensive income	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Result for the financial period	1,216	1,461	2,107
Currency translation differences	(55)	314	389
Other comprehensive gains/losses in the syndicate annual accounts	1	7	–
Remeasurement of losses on pension assets/liabilities in the Society accounts	22	(105)	(111)
Total comprehensive income for the financial period	1,184	1,677	2,385

2.4

Market Results
Pro Forma Balance Sheet (At 30 June 2017)

	Note	30 June 2017 £m	30 June 2017 £m	30 June 2016 £m	30 June 2016 £m	31 December 2016 £m	31 December 2016 £m
Investments							
Financial investments	10		53,507		50,627		55,354
Deposits with ceding undertakings			19		3		20
Reinsurers' share of technical provisions							
Provision for unearned premiums		4,422		3,792		3,110	
Claims outstanding		11,963		10,413		11,310	
			16,385		14,205		14,420
Debtors							
Debtors arising out of direct insurance operations		9,893		9,269		8,881	
Debtors arising out of reinsurance operations		6,718		5,613		5,043	
Other debtors		1,095		1,041		926	
			17,706		15,923		14,850
Other assets							
Tangible assets		31		31		31	
Cash at bank and in hand	11	12,434		11,902		12,292	
Other		89		82		81	
			12,554		12,015		12,404
Prepayments and accrued income							
Accrued interest and rent		101		95		106	
Deferred acquisition costs		4,852		4,489		4,278	
Other prepayments and accrued income		324		308		170	
			5,277		4,892		4,554
Total assets			105,448		97,665		101,602
Capital, reserves, subordinated debt and securities							
Members' funds at Lloyd's	5	22,291		20,108		21,703	
Members' balances	12	2,783		3,764		4,015	
Members' assets (held severally)			25,074		23,872		25,718
Central reserves (mutual assets)			2,113		1,863		1,996
	7		27,187		25,735		27,714
Subordinated debt	2		792		494		495
Subordinated perpetual capital securities	2		–		388		388
Total capital, reserves, subordinated debt and securities			27,979		26,617		28,597
Technical provisions							
Provision for unearned premiums		19,212		17,957		16,548	
Claims outstanding		47,373		44,069		47,747	
			66,585		62,026		64,295
Deposits received from reinsurers			80		94		109
Creditors							
Creditors arising out of direct insurance operations		776		756		772	
Creditors arising out of reinsurance operations		6,821		5,235		4,670	
Other creditors including taxation		2,352		2,177		2,415	
			9,949		8,168		7,857
Accruals and deferred income			855		760		744
Total liabilities			105,448		97,665		101,602

2.5

Market Results

Pro Forma Statement of Cash Flows (For the six months ended 30 June 2017)

	Note	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Result for the financial period before tax		1,216	1,461	2,107
Increase/(decrease) in gross technical provisions		2,650	8,793	10,737
(Increase)/decrease in reinsurers' share of gross technical provisions		(2,021)	(3,120)	(3,231)
(Increase)/decrease in debtors		(3,438)	(4,735)	(3,538)
Increase/(decrease) in creditors		2,349	3,012	2,540
Movement in other assets/liabilities		(160)	(572)	(645)
Investment return		(1,035)	(1,087)	(1,345)
Depreciation		3	5	10
Tax paid		(34)	(11)	(48)
Foreign exchange		611	(1,854)	(3,563)
Other		(5)	46	2
Net cash flows from operating activities		136	1,938	3,026
Investing activities				
Purchase of equity and debt instruments		(20,477)	(21,373)	(41,931)
Sale of equity and debt instruments		22,094	22,047	41,594
Purchase of derivatives		(94)	(61)	(41)
Sale of derivatives		52	21	25
Investment income received		414	366	779
Other		(6)	(295)	(116)
Net cash flows from investing activities		1,983	705	310
Financing activities				
Net profits paid to members		(2,726)	(2,254)	(2,217)
Net capital transferred into/(out of) syndicate premium trust funds		741	39	(138)
Interest paid on subordinated notes		(29)	(29)	(53)
Issue of subordinated notes		298	–	–
Redemption of subordinated notes		(392)	–	–
Net movement in members' funds at Lloyd's		(174)	678	827
Other		43	(9)	(30)
Net cash flows from financing activities		(2,239)	(1,575)	(1,611)
Net increase/(decrease) in cash and cash equivalents		(120)	1,068	1,725
Cash and cash equivalents at 1 January		14,631	12,566	12,566
Exchange differences on cash and cash equivalents		(32)	141	340
Cash and cash equivalents at 30 June/31 December	13	14,479	13,775	14,631

2.6

Market Results

Notes to the Interim Pro Forma Financial Statements (At 30 June 2017)

1. The Interim Pro Forma Financial Statements

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

2. Basis of preparation

General

The interim PFFS have been prepared by aggregating financial information reported by all syndicates in returns to Lloyd's, members' Funds at Lloyd's (FAL) and the interim financial statements of the Society of Lloyd's on pages 29 to 54. 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 members' capital 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 in preparing syndicate annual accounts, 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 accounts report debtor and creditor balances for inter-syndicate loans totalling £89m (June 2016: £172m, December 2016: £135m). 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 accounts. 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 £401m (June 2016: £336m, December 2016: £552m). The elimination does not affect the interim PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

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

2. Basis of preparation continued

- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate accounts 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 accounts and as liabilities in the Society financial statements.

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

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

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

C Statement of changes in equity

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

D Taxation

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

E Related party transactions

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

Members' funds at Lloyd's (FAL)

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

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

Subordinated debt and securities

In accordance with the terms of the Society's subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves, subordinated debt and securities' in the pro forma balance sheet. Note 11 to the Society interim financial statements on page 51 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 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.

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 2016.

Certain interim PFFS comparative balances have been reclassified to be consistent with the 2016 Annual Report and current period presentation.

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 2016 Annual Report.

C. Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's interim financial statements are set out on pages 34 to 35. No adjustments have been made to the information incorporated into the interim PFFS as the Council do not consider there to be any material accounting policy differences between the existing EU adopted International Financial Reporting Standards (IFRS) accounting policies and the recognition and measurement requirements of UK GAAP.

4. Variability

Movements in reserves are based upon best estimates as at 30 June 2017 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. The aggregate of the prior year surpluses/(deficiencies) is a surplus of £188m (June 2016: £599m, December 2016: £1,150m). The surplus arises across most classes of businesses, 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 £22,291m (June 2016: £20,108m, December 2016: £21,703m). The notional investment return on FAL included in the non-technical profit and loss account totals £329m (June 2016: £223m, December 2016: £363m).

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 £219m (June 2016: £192m, December 2016: £378m) in the technical account and a loss of £131m (June 2016: profit of £20m, December 2016: profit of £26m) in the non-technical account.

7. Aggregation of results and net assets

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

Profit and loss account	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Result per syndicate returns	799	1,026	1,353
Result of the Society	99	196	330
Central Fund claims and provisions incurred in Society financial statements	–	–	8
Syndicate prior year adjustment treated as current year in PFFS	–	–	(13)
Taxation charge in Society financial statements	21	48	75
Notional investment return on members' funds at Lloyd's	329	223	363
Movement in Society income not accrued in syndicate returns	(32)	(32)	(9)
Result for the financial period before tax	1,216	1,461	2,107

Other comprehensive income	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Result for the financial period	1,216	1,461	2,107
Foreign currency movements	(55)	314	389
Other comprehensive income per syndicate returns	1	7	–
Other comprehensive income per Society financial statements	22	(105)	(111)
Total comprehensive income	1,184	1,677	2,385

Capital and reserves	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Net assets per syndicate returns	2,745	3,754	4,011
Net assets of the Society	2,113	1,863	1,996
Central Fund claims and provisions	1	6	1
Members' funds at Lloyd's	22,291	20,108	21,703
Unpaid cash calls reanalysed from debtors to members' balances	96	54	30
Society income receivable not accrued in syndicate returns	(59)	(50)	(27)
Capital and reserves per PFFS	27,187	25,735	27,714

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 PFFS as set out in note 2.

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

Six months ended 30 June 2016	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	5,911	3,332	(1,902)	(1,339)	91
Property	4,147	2,674	(1,465)	(1,234)	(25)
Casualty	3,359	2,434	(1,440)	(1,049)	(55)
Marine	1,278	993	(606)	(406)	(19)
Energy	754	433	(221)	(186)	26
Motor	524	398	(277)	(141)	(20)
Aviation	298	236	(120)	(100)	16
Life	36	33	(17)	(16)	–
Total from syndicate operations	16,307	10,533	(6,048)	(4,471)	14
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	–	–	–	192	192
PFFS premiums and underwriting result	16,307	10,533	(6,048)	(4,279)	206
Allocated investment return transferred from the non-technical account					630
Balance on the technical account for general business					836

2.6

Market Results
Notes to the Interim Pro Forma Financial Statements continued (At 30 June 2017)

9. Net operating expenses

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Acquisition costs	4,737	3,982	7,539
Change in deferred acquisition costs	(711)	(577)	(196)
Administrative expenses	1,140	1,190	2,464
Reinsurance commissions and profit participation	(461)	(316)	(602)
Total operating expenses	4,705	4,279	9,205

10. Financial investments

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Shares and other variable yield securities and units in unit trusts	8,806	7,359	9,133
Debt securities and other fixed income securities	36,207	36,691	38,216
Participation in investment pools	2,439	1,230	1,863
Loans and deposits with credit institutions	5,905	5,246	6,019
Other	150	101	123
Total investments	53,507	50,627	55,354

11. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within member's' FAL to meet policyholder claims as required, totalling £9,412m (June 2016: £9,437m, December 2016: £9,586m).

12. Members' balances

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Balance at 1 January	4,015	4,613	4,613
Result for the period per interim syndicate returns	799	1,026	1,353
Distribution on closure of the 2014 (2013) year of account	(2,678)	(2,097)	(2,061)
Advance distributions from open years of account	(58)	(155)	(163)
Movement in cash calls	22	(8)	7
Net movement on funds in syndicate (see note below)	741	27	(138)
Exchange (losses)/gains	(92)	341	439
Other	34	17	(35)
Balance at 30 June / 31 December	2,783	3,764	4,015

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 2017 there was £4,139m (June 2016: £3,440m, December 2016: £3,315m) 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'.

13. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Full year 2016 £m
Cash at bank and in hand	12,434	11,902	12,292
Short term deposits with credit institutions	2,387	2,023	2,517
Overdrafts	(342)	(150)	(178)
	14,479	13,775	14,631

Of the cash and cash equivalents, £517m (June 2016: £474m, December 2016: £428m) is held in regulated bank accounts in overseas jurisdictions.

14. Post balance sheet events

Q3 natural catastrophes

Windstorms Harvey and Irma made landfall on the United States and the Caribbean towards the end of August and early September 2017 respectively. These events have caused significant damage in the states of Texas and Florida in the United States and to a number of islands in the Caribbean. It is currently too early to reliably estimate the financial impact of these loss events to the Lloyd's market given the level of uncertainty at this stage of development. Our preliminary analysis indicates net claims, after reinsurance, to the Lloyd's market in the region of $4.5bn.

Windstorm Maria made landfall on a number of Caribbean islands towards the end of September 2017. There is a high degree of uncertainty of the value of insured losses and at this stage we have not yet quantified the financial impact to the Lloyd's market.

Ogden discount rate

On 7 September 2017, the Ministry of Justice announced the outcome of the government's review of how the Ogden discount rate is set. The government is publishing draft legislation to reform how the rate is set and intends to legislate as soon as parliamentary time allows. The new framework will introduce a single rate that will reflect how claimants invest in the real world and could produce a rate of between 0 to 1%, replacing the current rate of -0.75%. This change in discount rate, once confirmed, is expected to result in an improvement in the Lloyd's market reserves.

2.7

Market Results

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2017 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 2017.

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 2017 (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 2017;
- 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 14 which have been prepared on the basis set out in note 2.

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

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our Independence and Quality Control

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

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

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

Work done

The Interim PFFS have been compiled in part from an aggregation of financial information extracted from the profit and loss accounts, balance sheets, cash flow statements and related notes included in syndicates' Quarterly Monitoring Return A – Quarter 2 2017 (the 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, ISRE (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 members' 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 2017 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.

This report, including our conclusions, has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 6 September 2017, to assist the Council of Lloyd's in reporting the interim pro forma financial statements 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
27 September 2017

3.0

Society Report

3.1

Society Report
Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society of Lloyd's achieved an operating surplus for the period of £124m (June 2016: £112m). 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 2017 £m	Six months ended 30 June 2016 £m
Total income	165	115	280	255
Other Group operating expenses	(150)	(6)	(156)	(143)
Operating surplus*	15	109	124	112

Corporation of Lloyd's

Total income for the Corporation increased to £165m during the first half of 2017 (30 June 2016: £151m). Within this, subscription income increased reflecting the higher level of premiums reported in sterling as a result of exchange rate movements. Partly offsetting this, the subscription rate was reduced on 1 January 2017 from 0.45% to 0.40% of gross written premiums.

In aggregate, other income streams also increased compared to the prior period, in particular the overseas operating charge. This was partly offset by a reduction in the market modernisation levy following a decrease in the rate charged from 0.1% of gross written premium to 0.09% from the beginning of 2017. Within income, premiums written through Lloyd's Insurance Company (China) Limited increased to £126m (30 June 2016: £119m). All business underwritten through the company is reinsured to Lloyd's syndicates.

Operating expenses increased to £150m (30 June 2016: £137m), reflecting the impact of exchange rates on the operating costs of our overseas network of offices when translated to sterling. In addition, investment continued in the strategic priorities, notably global market access and market modernisation. In addition, operating expenses include £4m of restructuring costs in respect of implementation of the new Corporation Operating Model (COM).

Lloyd's Central Fund

Total income for the Central Fund increased to £115m (30 June 2016: £104m) due to the higher level of premiums reported in sterling, reflecting the benefit of movements in rates of exchange. The rate charged continued at 0.35% (1.4% for new syndicates).

Operating expenses for the Central Fund remained constant at £6m (30 June 2016: £6m). There was no charge in the current or prior period in respect of claims arising within the Fund and no payments were made in respect of insolvent corporate members (30 June 2016: nil).

* The operating surplus is considered to be a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Interim Report) is considered to be an Alternative Performance Measure (APM), with further information available on pages 56 to 57.

Investment performance

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Finance costs	(35)	(27)
Finance income	10	12
Gain on investments including unrealised movement of forward currency contracts	16	142
Total finance	(9)	127

The Society's investments, mostly held within the Central Fund, in total returned £26.2m or 0.7% during the period (June 2016: £154m, 5.2%). Excluding exchange rate movements, investments returned £90.4m or 2.3% during the period (June 2016: £82.4m, 2.8%).

Investment returns were regarded as solid over the first half of 2017. Global equity investments performed well over the period with emerging equities generating a particularly strong level of return. Returns on other 'growth style' assets were mixed, with commodities being the poorest performing asset class for the Central Fund investment portfolio. Return on the global investment grade fixed interest portfolio, which accounts for a major share of the overall portfolio, was lower by comparison but some capital appreciation was generated from corporate bonds.

Sterling underwent some strengthening against the US dollar. The Society's currency policy is to hold US dollars in order to match the underlying US dollar element of the central Solvency Capital Requirement (SCR). Therefore, currency movements had an adverse impact on Central Fund asset values in converted Sterling terms over the period, whilst preserving solvency coverage.

The disposition of the Society's financial investments is set out in note 9 on pages 45 to 46.

Finance costs, which primarily consist of interest arising on subordinated notes and capital securities increased by £8m to £35m (June 2016: £27m). The increase reflects the issuance of an additional £300m worth of sterling notes on 7 February 2017 at a rate payable of 4.875% per annum. The proceeds from this issue were subsequently used to redeem the outstanding perpetual subordinated capital securities on 21 June 2017.

Results summary

Overall, the surplus after tax for the six months to June 2017 was £99m (June 2016: a surplus of £196m). There was a net other comprehensive income in the period of £18m (June 2016: deficit of £96m) reflecting a small improvement in the pension scheme deficit (2016: increase in deficit of £135m). The net assets of the Society increased by £117m in the six months to June 2017 to £2,113m.

Solvency

Lloyd's solvency position is set out below.

Solvency at Lloyd's

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. Given Lloyd's unique structure there are two SCRs which are monitored under the Solvency II regime:

– The Lloyd's Market Wide SCR (MWSCR) is calculated to cover all of the risks of 'the association of underwriters known as Lloyd's', i.e. those arising on syndicate activity, members' capital provided at Lloyd's and the Society taken together, at a 99.5% confidence level over a one year time horizon as provided for in Solvency II legislation. All of the capital of the component parts of the market taken together are available to meet the MWSCR;
– The Lloyd's Central SCR (CSCR) is calculated in respect of only the risks facing the Society and the Central Fund at the same confidence level and time horizon used to calculate the MWSCR. The material risk is that members do not have sufficient funds to meet their underwriting losses even having complied with Lloyd's rigorous capital setting rules. Only assets held centrally by the Society may cover the CSCR.

Market wide solvency

	30 June 2017 £m	31 December 2016 £m
Capital and reserves per Pro Forma Balance Sheet (page 11)	27,187	27,714
Subordinated debt	792	883
Total	27,979	28,597
Solvency valuation adjustments	(2,253)	(1,901)
Available own funds to meet the MWSCR	25,726	26,696
Excess own funds not eligible to meet the MWSCR	(1,176)	(1,932)
Eligible own funds to meet the MWSCR	24,550	24,764
MWSCR	16,750	17,200
Market wide solvency ratio	147%	144%

The solvency valuation adjustments above include items such as valuation differences arising and assets being disallowed due to the valuation principles used in Solvency II, as well as provision for expected future distribution of profits to members.

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. A significant portion of the members' FAL are in the form of letters of credit (LOCs) which are classified as Tier 2 assets under Solvency II. This constitutes £1,141m (31 December 2016: £1,892m) of the excess own funds in accordance with the solvency calculation. These LOCs are callable on demand and when called, the proceeds, namely cash, would qualify as Tier 1 assets. Under these circumstances, the amounts previously restricted would become fully eligible.

Central solvency

	30 June 2017 £m	31 December 2016 £m
Central assets per Group statement of financial position (page 31)	2,113	1,996
Subordinated debt	792	883
Total	2,905	2,879
Solvency valuation adjustments	525	554
Available central own funds to meet the Central SCR	3,430	3,433
Excess central own funds not eligible to cover the Central SCR	(144)	–
Eligible central own funds to meet the Central SCR	3,286	3,433
Central SCR	1,558	1,600
Central solvency ratio	211%	215%

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

The capital tiering rules referred to above also apply to the coverage of the central SCR. The inclusion of the Tier 2 subordinated debt issued in early 2017 means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the central SCR by £144m as at 30 June 2017.

Brexit

We are committed to ensuring that the Lloyd’s market maintains access to the European Union (EU) when the UK exits the EU, and likewise we want to ensure that EU businesses can access the expertise of Lloyd’s. We have announced our intention to set up an insurance company in Brussels, Belgium, subject to regulatory approval.

The decision to locate this new company in Belgium was due to several key factors including the fact it provides a robust regulatory framework, in a central European location at the heart of the EU. It will enable Lloyd’s to continue to provide specialist underwriting expertise to policyholders in the EU. Lloyd’s has a long history and tradition in Europe and the setting up of this new insurance company is a demonstration of our continuing commitment to the EU market.

Going Concern Statement

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

The Chain of Security is discussed in more detail in ‘How Lloyd’s works’ on page 186 of Lloyd’s 2016 Annual Report and in the ‘Security underlying policies issued at Lloyd’s’ which is reported as a separate document and can be viewed at www.lloyds.com/lloyds/about-us/what-do-we-insure/stability-and-security.

3.2

Society Report
Council of Lloyd's Statement of Principal Risks and Uncertainties

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

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

- Access to the EU market following Brexit;
- Catastrophe exposure;
- Cyber risk;
- Longer term threats to the business model;
- Major change programmes and operational stretch;
- Ongoing compliance with Solvency II;
- Significant regulatory and tax change and complexity across multiple jurisdictions; and
- Underwriting market conditions.

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

3.3

Society Report
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 2017.
– The statement from the Chairman and Chief Executive and the Society of Lloyd's Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements.
– The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year.
– The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

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

On behalf of the Council of Lloyd's:

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

27 September 2017

3.4

Society Report
Group Income Statement (For the six months ended 30 June 2017)

	Note	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Corporation operating income		164,940	151,557	331,761
Central Fund income		115,503	103,719	119,955
Gross written premiums		125,675	118,657	237,916
Outward reinsurance premiums		(125,675)	(118,657)	(237,916)
Total income		280,443	255,276	451,716
Central Fund claims and provisions incurred	3(II)	–	–	(8,300)
Gross insurance claims incurred		(99,205)	(77,233)	(199,650)
Insurance claims recoverable from reinsurers		99,205	77,233	199,656
Other Group operating expenses		(156,271)	(142,784)	(306,385)
Operating surplus		124,172	112,492	137,037
Finance costs	4A	(35,019)	(26,569)	(53,570)
Finance income	4B	26,195	154,475	313,791
Share of profits of associates		4,319	3,947	7,891
Surplus before tax		119,667	244,345	405,149
Tax charge	5	(21,092)	(48,109)	(75,193)
Surplus for the period/year		98,575	196,236	329,956

3.5

Society Report

Group Statement of Comprehensive Income (For the six months ended 30 June 2017)

	Note	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Surplus for the period/year		98,575	196,236	329,956
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement gains/(losses) on pension assets/liabilities				
UK	6	25,767	(129,147)	(127,455)
Overseas		–	–	73
Associates		1,795	–	(3,271)
Tax (charge)/credit relating to items that will not be reclassified	5	(5,500)	23,846	19,434
Currency translation differences		(3,605)	9,139	14,522
Net other comprehensive income/(deficit) for the period/year		18,457	(96,162)	(96,697)
Total comprehensive income for the period/year		117,032	100,074	233,259

3.6

Society Report

Group Statement of Financial Position (As at 30 June 2017)

	Note	30 June 2017 £000	30 June 2016 £000	31 December 2016 (audited) £000
Assets				
Intangible assets	7	146	79	167
Lloyd's Collection		13,314	13,314	13,314
Plant and equipment	8	17,415	17,203	18,109
Deferred tax asset		35,055	46,904	39,893
Investment in associates		12,326	7,984	6,596
Insurance contract assets		294,394	198,300	253,996
Loans recoverable	10	42,615	46,812	43,410
Financial investments	9	3,416,862	3,391,961	3,359,448
Inventories		449	368	420
Trade and other receivables due within one year		210,316	155,032	205,141
Prepayments and accrued income		20,412	25,121	16,777
Derivative financial instruments	10	13,649	26,806	16,233
Cash and cash equivalents		439,177	289,410	391,135
Total assets		4,516,130	4,219,294	4,364,639
Equity and liabilities				
Equity				
Accumulated reserve		2,078,530	1,830,091	1,957,893
Revaluation reserve		13,314	13,314	13,314
Translation Reserve		21,253	19,475	24,858
Total equity		2,113,097	1,862,880	1,996,065
Liabilities				
Subordinated notes and perpetual subordinated capital securities	11	792,426	882,448	882,814
Insurance contract liabilities		294,416	198,328	254,017
Pension liabilities	6	211,212	228,790	230,518
Provisions		16,881	33,270	14,440
Loans funding statutory insurance deposits		523,804	479,837	493,713
Trade and other payables		392,215	295,566	377,968
Accruals and deferred income		136,935	125,922	62,833
Tax payable		20,222	44,582	33,154
Derivative financial instruments	10	14,922	67,671	19,117
Total liabilities		2,403,033	2,356,414	2,368,574
Total equity and liabilities		4,516,130	4,219,294	4,364,639

Approved and authorised for issue by the Council of Lloyd's on 27 September 2017 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

Inga Beale
Chief Executive Officer

3.7

Society Report

Group Statement of Changes in Equity (For the six months ended 30 June 2017)

	Accumulated reserve £000	Revaluation reserve £000	Translation reserve £000	Total equity £000
At 1 January 2016	1,739,156	13,314	10,336	1,762,806
Surplus for the period	196,236	–	–	196,236
Net other comprehensive (deficit)/income for the period	(105,301)	–	9,139	(96,162)
At 30 June 2016	1,830,091	13,314	19,475	1,862,880
Surplus for the period	133,720	–	–	133,720
Net other comprehensive (deficit)/income for the period	(5,918)	–	5,383	(535)
At 31 December 2016	1,957,893	13,314	24,858	1,996,065
Surplus for the period	98,575	–	–	98,575
Net other comprehensive income/(deficit) for the period	22,062	–	(3,605)	18,457
At 30 June 2017	2,078,530	13,314	21,253	2,113,097

3.8

Society Report

Group Statement of Cash Flows (For the six months ended 30 June 2017)

	Note	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Cash generated from operations	12	215,371	215,813	191,595
Tax paid		(34,327)	(11,128)	(47,616)
Net cash generated from operating activities		181,044	204,685	143,979
Cash flows from investing activities				
Purchase of plant, equipment and intangible assets	7/8	(2,399)	(3,542)	(9,191)
Proceeds from the sale of plant, equipment and intangible assets		–	10	10
Purchase of financial investments	9A/B	(1,049,011)	(1,460,625)	(2,236,207)
Receipts from the sale of financial investments	9A/B	1,005,445	1,418,913	2,315,879
(Increase)/decrease in short term deposits	9B	(26,685)	(12,523)	61,375
Reclassification from short term deposits	9B	–	(1,454)	–
Dividends received from associates		–	4,419	7,161
Interest received		26,480	24,914	54,063
Dividends received	4	4,092	4,244	7,321
Realised gains/(losses) on settlement of forward currency contracts		4,485	(25,863)	(77,103)
Net cash (used in)/generated from investing activities		(37,593)	(51,507)	123,308
Cash flows from financing activities				
Issuance of subordinated notes		297,852	–	–
Redemption of subordinated notes		(392,013)	–	–
Interest paid on subordinated notes		(29,091)	(29,091)	(52,841)
Issue costs in relation to subordinated notes		(139)	(1)	–
Other interest paid		–	(731)	(1,589)
Increase/(decrease) in borrowings for statutory insurance deposits		37,220	(10,266)	(20,779)
Net cash used in financing activities		(86,171)	(40,089)	(75,209)
Net increase in cash and cash equivalents		57,280	113,089	192,078
Effect of exchange rates on cash and cash equivalents		(9,238)	907	23,643
Cash and cash equivalents at 1 January		391,135	175,414	175,414
Cash and cash equivalents at 30 June/31 December		439,177	289,410	391,135

3.9

Society Report
Notes to the Group Interim Financial Statements (As at 30 June 2017)

1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council of Lloyd's on 27 September 2017. The Group interim financial statements comprise the consolidation of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each statement of financial position date. The Group interim financial statements for the six months ended 30 June 2017 and 30 June 2016 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2017, is set out on page 55.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2016 prepared under IFRS as adopted by the EU. Their report was included in the Annual Report 2016 which was published on 30 March 2017 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

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

The accounting policies, except for the adoption of the amendments to the International Accounting Standards (IASs) that became effective as of 1 January 2017 as stated below, are consistent with those adopted for the Society of Lloyd's Annual Report 2016, which was approved on 29 March 2017. 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 International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);
- Disclosure Initiative (Amendments to IAS 7);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Amendments to IRFS 12); and
- Amendments to IFRS 10 and IAS 28 on Sale or Contribution of Assets.

The Society's accounting policies have been updated to reflect these. The Council considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group interim financial statements although the impact will be assessed as the standards develop. In addition to the above, a review has been carried out of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 17 Insurance Contracts with the following results:

IFRS 9 – Financial instruments

IFRS 9 replaces IAS 39 and specifies how an IFRS reporter will recognise, measure, present and disclose financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018, although is available for early application. The standard focuses on the three key areas set out below:

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

In advance of implementation of the standard, a review of the main financial instruments of the Society has been carried out. From this review, it is not expected that implementation of IFRS 9 will have a material impact on the Group financial statements of the Society. In particular, it should be noted that, with the exception of the subordinated loan notes, all assets and liabilities are already valued using fair value. Further information on the Society's current accounting policy for financial instruments is provided in note 2F and note 18 of the 2016 Annual Report.

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

IFRS 15 – Revenue from contracts with customers

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

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

In advance of implementation of the standard, a review of the Society revenue streams has been carried out. In particular, each source of revenue has been reviewed by applying each of the five steps set out above. From this review, it is not expected that implementation of IFRS 15 will have a material impact on the Group financial statements of the Society. Further information on the Society's current accounting policy for revenue recognition is provided in note 2N of the 2016 Annual Report.

IFRS 16 – Leases

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

Work is ongoing to identify those leases which will be impacted by the new standard, as well as considering which transitional arrangements will be adopted when IFRS 16 is implemented. Processes and systems are being reviewed to identify where changes are required in order to ensure full compliance with the new accounting standard from 2019 onwards. Further information on the Society's current accounting policy for leases is provided in note 2S and note 25 of the 2016 Annual Report.

IFRS 17 – Insurance contracts

IFRS 17 was issued in May 2017, being the new accounting standard in respect of insurance contracts, with an effective date of 1 January 2021. The standard is expected to have a material impact on the Society's consolidated accounts, driven by the insurance operations in China, Lloyd's Insurance Company (China) Limited and the Society's proposed new insurance subsidiary in Belgium. Further information on the Society's current accounting policy for insurance contracts is provided in note 2G and note 5 of the 2016 Annual Report.

3. Segmental analysis

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

Intra-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

3. Segmental analysis continued

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:

(a) Corporation of Lloyd's: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment. Both subscription income and expenses for the Corporation of Lloyd's are generally recognised evenly throughout the period.

(b) 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 the 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. Central Fund contributions are seasonal as they are recognised in full during the first half of the year.

		Six months ended 30 June 2017		
A) Information by business segment	Note	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		164,940	115,503	280,443
Segment operating expenses				
Gross insurance claims incurred		(99,205)	–	(99,205)
Insurance claims recoverable from reinsurers		99,205	–	99,205
Other Group operating expenses				
Employment (including pension costs and restructuring costs)		(80,806)	–	(80,806)
Premises		(25,137)	–	(25,137)
Legal and professional		(13,172)	(481)	(13,653)
Systems and communications		(14,674)	–	(14,674)
Other		(16,051)	(5,950)	(22,001)
Total other Group operating expenses		(149,840)	(6,431)	(156,271)
Total segment operating expenses		(149,840)	(6,431)	(156,271)
Total segment operating surplus		15,100	109,072	124,172
Finance costs	4A	–	(35,019)	(35,019)
Finance income	4B	4,330	21,865	26,195
Share of profits of associates		4,319	–	4,319
Segment surplus before tax		23,749	95,918	119,667
Tax charge				(21,092)
Surplus for the period				98,575
Segment assets and liabilities				
Financial investments		738,838	2,678,024	3,416,862
Cash and cash equivalents		397,315	41,862	439,177
Other assets		470,232	154,804	625,036
Segment assets		1,606,385	2,874,690	4,481,075
Tax assets				35,055
Total assets				4,516,130
Segment liabilities		(1,540,409)	(842,402)	(2,382,811)
Tax liabilities				(20,222)
Total liabilities				(2,403,033)
Total equity				2,113,097

3. Segmental analysis continued

A) Information by business segment continued	Note	Six months ended 30 June 2016 Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		151,557	103,719	255,276
Segment operating expenses				
Gross insurance claims incurred		(77,233)	–	(77,233)
Insurance claims recoverable from reinsurers		77,233	–	77,233
Other Group operating expenses				
Employment (including pension costs)		(69,624)	–	(69,624)
Premises		(23,170)	–	(23,170)
Legal and professional		(16,241)	(358)	(16,599)
Systems and communications		(11,084)	–	(11,084)
Other		(17,347)	(4,960)	(22,307)
Total other Group operating expenses		(137,466)	(5,318)	(142,784)
Total segment operating expenses		(137,466)	(5,318)	(142,784)
Total segment operating surplus		14,091	98,401	112,492
Finance costs	4A	1	(26,570)	(26,569)
Finance income	4B	1,972	152,503	154,475
Share of profits of associates		3,947	–	3,947
Segment surplus before tax		20,011	224,334	244,345
Tax charge				(48,109)
Surplus for the period				196,236
Segment assets and liabilities				
Financial investments		749,942	2,642,019	3,391,961
Cash and cash equivalents		244,626	44,784	289,410
Other assets		404,791	86,228	491,019
Segment assets		1,399,359	2,773,031	4,172,390
Tax assets				46,904
Total assets				4,219,294
Segment liabilities		(1,329,734)	(982,098)	(2,311,832)
Tax liabilities				(44,582)
Total liabilities				(2,356,414)
Total equity				1,862,880

3. Segmental analysis continued

A) Information by business segment continued	Note	Full year 2016 (audited) Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		331,761	119,955	451,716
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(8,300)	(8,300)
Gross insurance claims incurred		(199,650)	–	(199,650)
Insurance claims recoverable from reinsurers		199,656	–	199,656
Other Group operating expenses				
Employment (including pension costs)		(147,003)	–	(147,003)
Premises		(49,117)	–	(49,117)
Legal and professional		(32,986)	(1,366)	(34,352)
Systems and communications		(35,671)	–	(35,671)
Other		(30,911)	(9,331)	(40,242)
Total other Group operating expenses		(295,688)	(10,697)	(306,385)
Total segment operating expenses		(295,682)	(18,997)	(314,679)
Total segment operating surplus		36,079	100,958	137,037
Finance costs	4A	(4)	(53,566)	(53,570)
Finance income	4B	(789)	314,580	313,791
Share of profits of associates		7,891	–	7,891
Segment surplus before tax		43,177	361,972	405,149
Tax charge				(75,193)
Surplus for the year				329,956
Segment assets and liabilities				
Financial investments		672,063	2,687,385	3,359,448
Cash and cash equivalents		343,589	47,546	391,135
Other assets		413,812	160,351	574,163
Segment assets		1,429,464	2,895,282	4,324,746
Tax assets				39,893
Total assets				4,364,639
Segment liabilities		(1,407,809)	(927,611)	(2,335,420)
Tax liabilities				(33,154)
Total liabilities				(2,368,574)
Total equity				1,996,065

3. Segmental analysis continued

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

B) Net central assets	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Central Fund			
Net assets 1 January	1,952,292	1,657,958	1,657,958
Operating surplus	109,954	99,242	102,929
Intra-Group transactions	(882)	(841)	(1,971)
Net finance (cost)/income	(13,155)	125,934	261,014
Tax charge	(18,296)	(44,539)	(67,638)
Net assets as at 30 June/31 December	2,029,913	1,837,754	1,952,292
Corporation of Lloyd's and subsidiary undertakings	83,184	25,126	43,773
Net Society assets at 30 June/31 December	2,113,097	1,862,880	1,996,065
Subordinated notes	792,426	493,958	494,324
Perpetual subordinated capital securities	–	388,490	388,490
Net central assets excluding subordinated debt liabilities	2,905,523	2,745,328	2,878,879

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

During the six months ended 30 June 2017, members paid amounts to the Central Fund (Central Fund contributions) and to the Corporation of Lloyd's (subscriptions) at 0.35% and 0.40% respectively of business plan premium. The ultimate amounts to be retained by the Central Fund and the Corporation of Lloyd's for 2017 will be based on 2017 written premiums, the quantification of which will not be known until 2019. The £115m (Central Fund contributions) and £64m (subscriptions recognised over the year) included in the 2017 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

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Net undertakings granted	–	–	(8,300)
Claims payable in respect of individual members	–	–	–
Central Fund claims and provisions incurred	–	–	(8,300)

The Council of Lloyd's has given undertakings with financial limits to certain corporate members to use the New Central Fund to discharge the liability of those members where they have unpaid cash calls and do not have the resources to meet those cash calls. The purpose of these undertakings is primarily to allow valid claims made on policies underwritten by those insolvent members to continue to be paid in full. Undertakings are accounted for when they are approved by the Council and become contractual commitments. These undertakings are granted wholly at the discretion of the Council principally on an annual basis and therefore are not deemed constructive obligations, except for renewals of commitments previously granted.

For those corporate members in provisional liquidation, the Council has also provided supporting commitments to ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the Group interim financial statements and changes during the period are reflected in the Group income statement, shown in the table above.

During the six months to 30 June 2017, no undertakings were paid to corporate members (30 June 2016: nil; 31 December 2016: £13.7m).

4. Finance

(A) Finance costs	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Interest payable on financial liabilities measured at amortised cost	(31,107)	(26,211)	(52,841)
Other interest payable and similar charges	–	1	(4)
Amortisation of issue costs and discount	(3,912)	(359)	(725)
Total interest payable on financial liabilities	(35,019)	(26,569)	(53,570)
(B) Finance income			
Bank interest received	5,271	4,052	8,474
Dividends received	4,092	4,244	7,321
Gain on investments including unrealised movement of forward currency contracts	16,004	142,489	295,167
Movement in loans recoverable	828	3,690	2,829
Total finance income	26,195	154,475	313,791

5. Taxation

A) Analysis of total tax charge	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Current tax			
Corporation tax based on profits for the period at 19.25% (2016: 20%)	(20,363)	(46,089)	(71,677)
Adjustments in respect of previous periods	(787)	1	2,284
Foreign tax suffered	(83)	(588)	(2,403)
Total current tax	(21,233)	(46,676)	(71,796)
Deferred tax			
Origination and reversal of timing differences			
Current year	(1,014)	(1,433)	(2,164)
Prior year	1,155	–	(1,233)
Tax charge recognised in the Group income statement	(21,092)	(48,109)	(75,193)
Analysis of tax charge recognised in the Group statement of comprehensive income			
Tax (charge)/credit on actuarial loss on pension liabilities			
Group	(5,116)	23,892	18,799
Associates	(384)	(46)	635
Tax (charge)/credit recognised in the Group statement of comprehensive income	(5,500)	23,846	19,434
Total tax charge	(26,592)	(24,263)	(55,759)

B) Reconciliation of effective tax rate	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Surplus on ordinary activities before tax	119,667	244,345	405,149
Expected tax at current rate	(23,036)	(48,869)	(81,030)
Expenses not deductible for tax purposes	(69)	(386)	(184)
Income not taxable for tax purposes	51	–	177
Overseas tax	(198)	(554)	(227)
Difference between tax and accounting profit on investments	546	–	400
Other	21	551	157
Share of profits of associates	831	789	1,579
Deferred tax on restated fixed assets	114	32	316
Deferred tax adjustments relating to change in tax rate	280	327	2,668
Deferred tax prior year adjustments	1,155	–	(1,333)
Current tax prior year adjustments	(787)	1	2,284
Tax charge	(21,092)	(48,109)	(75,193)

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

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

6. Pension schemes

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

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

Defined benefit and contribution plans

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Schemes in deficit		
Lloyd's Pension Scheme	(208,069)	(225,845)
Overseas pension schemes	(3,143)	(2,945)
Total scheme deficit	(211,212)	(228,790)

The Lloyd's Pension Scheme

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19R 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2017 was £208m (30 June 2016: deficit of £226m; 31 December 2016: deficit of £228m) before the allowance of deferred tax. An actuarial gain of £26m has been recognised in the six months ended 30 June 2017 (actuarial loss 30 June 2016: £129m; 31 December 2016: £127m).

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

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Actuarial value of Scheme liabilities at 1 January	957,370	767,759	767,759
Interest cost on Pension Scheme liabilities	12,345	14,372	28,716
Current service cost (net of employee contributions)	5,416	4,179	8,551
Employee contributions	811	952	1,786
Benefits paid	(15,940)	(11,353)	(24,890)
Experience gains arising in Scheme liabilities	(669)	(137)	(18,724)
Change in assumptions underlying the present value of the Scheme liabilities			
Demographic assumption change	–	–	(8,040)
Financial assumption change	543	140,028	202,212
Actuarial value of Scheme liabilities at 30 June/31 December	959,876	915,800	957,370

Changes in fair value of plan assets were:

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Fair value of Scheme assets at 1 January	729,791	674,709	674,709
Expected return on Pension Scheme assets	9,367	12,604	25,307
Employer contributions			
Normal	2,137	2,299	4,886
Special	–	–	–
Employee contributions	811	952	1,786
Benefits paid	(15,525)	(11,353)	(24,155)
Return on Scheme assets greater than discount rate	25,641	10,744	47,993
Administrative expenses	(415)	–	(735)
Fair value of Scheme assets at 30 June/31 December	751,807	689,955	729,791

6. Pension schemes continued

The triennial funding valuation as at 30 June 2016 was undertaken by Willis Towers Watson. The total market value of the Scheme's assets at the date of the valuation was £667.1m and the total value of accrued liabilities was £730.3m showing a funding deficit of £63.2m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions (AVCs). A recovery plan is in place and has been agreed with the Trustees. This will be kept under review as circumstances develop.

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

Following the 2016 actuarial valuation, employer contributions to meet the cost of future accrual as a percentage of salaries are 35% for final salary members with a normal pension age of 60, 30.8% for final salary members with a normal pension age of 65 and 18.6% for members accruing benefits on a career average basis.

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

Sensitivity of pension obligation to changes in assumptions

A change of 1% pa in the discount rate to be adopted as at 30 June 2017 would result in a change to the balance sheet liabilities at that date of around 20%, or approximately £200m.

A change of 1% pa in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2017, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the balance sheet liabilities at that date of around 10%, or approximately £100m.

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 2017 would be around 2% higher.

Overseas pension schemes

The Corporation of Lloyd's also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2017 is £3m (30 June 2016: £3m; 31 December 2016: £3m).

7. Intangible assets – software development

	£000
Cost	
At 1 January 2016	4,811
Additions	190
Disposals	(63)
At 30 June 2016	4,938
Additions	229
Disposals	(60)
At 31 December 2016	5,107
Additions	34
Disposals	(56)
At 30 June 2017	5,085
Amortisation	
At 1 January 2016	4,730
Charge for the period	189
Disposals	(60)
At 30 June 2016	4,859
Charge for the period	135
Disposals	(54)
At 31 December 2016	4,940
Charge for the period	53
Disposals	(54)
At 30 June 2017	4,939
Net book value at 30 June 2017	146
Net book value at 31 December 2016	167
Net book value at 30 June 2016	79

8. Plant and equipment

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost				
At 1 January 2016	29,550	22,103	65	51,718
Additions	2,327	1,018	7	3,352
Disposals	(1,797)	(114)	(2)	(1,913)
At 30 June 2016	30,080	23,007	70	53,157
Additions	3,621	1,796	3	5,420
Disposals	(1,555)	(1,011)	(2)	(2,568)
At 31 December 2016	32,146	23,792	71	56,009
Additions	1,913	451	1	2,365
Disposals	(877)	(91)	(2)	(970)
At 30 June 2017	33,182	24,152	70	57,404
Depreciation				
At 1 January 2016	18,035	15,391	48	33,474
Depreciation charge for the period	2,332	1,297	13	3,642
Disposals	(1,092)	(68)	(2)	(1,162)
At 30 June 2016	19,275	16,620	59	35,954
Depreciation charge for the period	2,802	1,343	11	4,156
Impairment losses	–	8	–	8
Disposals	(1,232)	(984)	(2)	(2,218)
At 31 December 2016	20,845	16,987	68	37,900
Depreciation charge for the period	1,440	1,262	7	2,709
Disposals	(568)	(46)	(6)	(620)
At 30 June 2017	21,717	18,203	69	39,989
Net book value at 30 June 2017	11,465	5,949	1	17,415
Net book value at 31 December 2016	11,301	6,805	3	18,109
Net book value at 30 June 2016	10,805	6,387	11	17,203

9. Financial investments

	30 June 2017 £000	30 June 2016 £000	31 December 2016 (audited) £000
Statutory insurance deposits	526,531	484,204	496,609
Other investments	2,890,331	2,907,757	2,862,839
Total financial investments	3,416,862	3,391,961	3,359,448

9. Financial investments continued

A) Statutory insurance deposits

	30 June 2017			30 June 2016	31 December 2016 (audited)
	Securities £000	Deposits £000	Total £000	£000	£000
Market value at 1 January	13,342	483,267	496,609	445,901	445,901
Additions at cost	13,956	445,838	459,794	395,473	526,475
Disposal proceeds	(14,077)	(408,500)	(422,577)	(411,397)	(554,493)
(Deficit)/surplus on the sale and revaluation of investments	(553)	(6,742)	(7,295)	54,227	78,726
Market value at 30 June/31 December	12,668	513,863	526,531	484,204	496,609

	30 June 2017		30 June 2016		31 December 2016 (audited)	
	Cost £000	Valuation £000	Cost £000	Valuation £000	Cost £000	Valuation £000
Analysis of government securities at period/year end	12,002	12,668	11,192	12,336	12,180	13,342

B) Other investments

	30 June 2017			30 June 2016	31 December 2016 (audited)
	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Total £000	Total £000	Total £000
Market value at 1 January	175,454	2,687,385	2,862,839	2,657,659	2,657,659
Additions at cost	–	589,217	589,217	1,065,152	1,709,732
Reclassification from short term deposits	–	–	–	1,454	–
Increase/(decrease) in short term deposits	36,852	(10,167)	26,685	12,523	(61,375)
Disposal proceeds	–	(582,868)	(582,868)	(1,007,516)	(1,761,386)
(Deficit)/surplus on the sale and revaluation of investments	–	(5,542)	(5,542)	178,485	318,209
Market value at 30 June/31 December	212,306	2,678,025	2,890,331	2,907,757	2,862,839
Listed securities					
Fixed interest					
Government	–	782,612	782,612	617,439	746,502
Corporate securities	–	840,301	840,301	1,002,254	863,813
Emerging markets	–	93,195	93,195	82,136	88,947
High yield	–	58,545	58,545	53,454	59,530
Total fixed interest	–	1,774,653	1,774,653	1,755,283	1,758,792
Global equities	–	546,434	546,434	556,594	551,076
Total listed securities	–	2,321,087	2,321,087	2,311,877	2,309,868
Unlisted securities					
Hedge funds	–	160,464	160,464	147,997	165,584
Commodities	–	44,665	44,665	44,664	49,001
Loan Investments	–	102,674	102,674	94,565	103,630
Short term deposits	212,306	29,135	241,441	288,654	214,756
Security deposits	–	20,000	20,000	20,000	20,000
Total unlisted securities	212,306	356,938	569,244	595,880	552,971
Market value at 30 June/31 December	212,306	2,678,025	2,890,331	2,907,757	2,862,839

10. Financial instruments

Fair value hierarchy

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

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

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

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

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

		30 June 2017			
	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,555	–	3,555
Unlisted securities		–	9,113	–	9,113
Deposits with credit institutions		–	513,863	–	513,863
Total statutory insurance deposits	9A	–	526,531	–	526,531
Other investments					
Listed securities		782,612	992,041	–	1,774,653
Equity investments		376,870	169,564	–	546,434
Unlisted securities		–	289,933	17,870	307,803
Deposits with credit institutions		261,441	–	–	261,441
Total other investments	9B	1,420,923	1,451,538	17,870	2,890,331
Derivative financial instruments					
Currency conversion service		–	6,208	–	6,208
Other forward foreign exchange contracts		–	6,299	–	6,299
Interest rate swaps		1,142	–	–	1,142
Total derivative financial instruments		1,142	12,507	–	13,649
Loans recoverable		–	–	42,615	42,615
Total financial assets at fair value through profit or loss		1,422,065	1,990,576	60,485	3,473,126
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(6,728)	–	(6,728)
Other forward foreign exchange contracts		–	(5,113)	–	(5,113)
Interest rate swaps		(3,081)	–	–	(3,081)
Total derivative financial instruments		(3,081)	(11,841)	–	(14,922)
Total financial liabilities at fair value through profit or loss		(3,081)	(11,841)	–	(14,922)

10. Financial instruments continued

Fair value hierarchy continued

	Note	30 June 2016 Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,639	–	3,639
Unlisted securities		–	8,697	–	8,697
Deposits with credit institutions		–	471,868	–	471,868
Total statutory insurance deposits	9A	–	484,204	–	484,204
Other investments					
Listed securities		615,984	1,137,844	–	1,753,828
Equity investments		419,677	136,918	–	556,595
Unlisted securities		–	273,784	13,442	287,226
Deposits with credit institutions		310,108	–	–	310,108
Total other investments	9B	1,345,769	1,548,546	13,442	2,907,757
Derivative financial instruments					
Currency conversion service		–	20,212	–	20,212
Other forward foreign exchange contracts		–	6,036	–	6,036
Interest rate swaps		558	–	–	558
Total derivative financial instruments		558	26,248	–	26,806
Loans recoverable		–	–	46,812	46,812
Total financial assets at fair value through profit or loss		1,346,327	2,058,998	60,254	3,465,579
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(20,166)	–	(20,166)
Other forward foreign exchange contracts		–	(36,521)	–	(36,521)
Interest rate swaps		(10,984)	–	–	(10,984)
Total derivative financial instruments		(10,984)	(56,687)	–	(67,671)
Total financial liabilities at fair value through profit or loss		(10,984)	(56,687)	–	(67,671)

This table has been re-presented from that shown in the 2016 Interim report to show both £135.6m of listed securities and £136.9m of equity investments as Level 2 that were previously shown as Level 1. Interest rate swap assets and liabilities are now shown as Level 1 that were previously shown as Level 2 and £13.4m of unlisted securities as Level 3 that were previously shown as Level 2. There are no adjustments to the December 2016 annual disclosures.

10. Financial instruments continued

Fair value hierarchy continued

	Note	31 December 2016 (audited) Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,682	–	3,682
Unlisted securities		–	9,660	–	9,660
Deposits with credit institutions		–	483,267	–	483,267
Total statutory insurance deposits	9A	–	496,609	–	496,609
Other investments					
Listed securities		746,503	1,012,289	–	1,758,792
Equity investments		396,198	154,878	–	551,076
Unlisted securities		–	300,655	17,560	318,215
Deposits with credit institutions		234,756	–	–	234,756
Total other investments	9B	1,377,457	1,467,822	17,560	2,862,839
Derivative financial instruments					
Currency conversion service		–	6,288	–	6,288
Other forward foreign exchange contracts		–	8,280	–	8,280
Interest rate swaps		1,665	–	–	1,665
Total derivative financial instruments		1,665	14,568	–	16,233
Loans recoverable		–	–	43,410	43,410
Total financial assets at fair value through profit or loss		1,379,122	1,978,999	60,970	3,419,091
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(6,830)	–	(6,830)
Other forward foreign exchange contracts		–	(9,207)	–	(9,207)
Interest rate swaps		(3,080)	–	–	(3,080)
Total derivative financial instruments		(3,080)	(16,037)	–	(19,117)
Total financial liabilities at fair value through profit or loss		(3,080)	(16,037)	–	(19,117)

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

Unlisted securities

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

When specific loans are insufficiently traded, the investment manager will determine fair value based on various unobservable factors and market inputs. This approach aligns with a Level 3 classification. 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 limited to, discounted cash flow models, option adjusted spread prices, trading values on comparable assets or indicative brokers quote(s).

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.

10. Financial instruments continued

Fair value hierarchy continued

Loans recoverable

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, LFAA and legal assets. 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 twice a year at both interim and year end.

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. In the calculation of the fair value, the securities include both properties that have had a 2% increase applied and hardship trust fund assets with an annual increase of 1.3%. Both securities have had the percentage increase applied until the date at which they may be exercised. A discount rate of 2.5% has also been applied to achieve present day fair value. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

There have been no significant transfers between Levels 1, 2 and 3 for the period ended 30 June 2017.

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

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

	30 June 2017 £000	30 June 2016 £000	31 December 2016 (audited) £000
At 1 January	60,970	57,614	57,614
Purchases	4,622	1,483	6,501
Sales	(2,256)	(1,613)	(6,400)
Transfers to Level 2	(3,548)	(2,328)	(2,586)
Total net gains recognised in the profit and loss	697	5,098	5,841
At 30 June/31 December	60,485	60,254	60,970

Sensitivity analysis

The majority of the Society's investments are valued based on quoted market information or other observable market data. The Society holds 1.7% (30 June 2016: 1.8%; 31 December 2016: 1.8%) of its financial investments at a fair value based on estimates and recorded as Level 3 investments.

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.

10. Financial instruments continued

Fair value hierarchy continued

Loans recoverable sensitivities

The value of loans recoverable is affected by changes in both property and hardship trust fund values. The property values are determined by a valuation being carried out periodically together with applying Halifax price indices bi-annually to revalue the assets at interim and year end. Inflationary increases are then applied to both property values and hardship trust funds until the estimated exercised date and then discounted back to present day values. Inflationary increases are based on management's best estimate taking current economic conditions into account.

As at 30 June 2017, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.1m (30 June 2016: £0.2m; 31 December 2016: £0.1m). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.

11. Subordinated notes and perpetual subordinated capital securities

	30 June 2017 £000	30 June 2016 £000	31 December 2016 (audited) £000
Details of loans payable wholly or partly after more than five years			
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500,000	500,000	500,000
4.875% subordinated notes of £300m maturing 07 February 2047 (Sterling 2017 Notes)	300,000	–	–
7.421% subordinated capital securities of £392m redeemable on 21 June 2017	–	392,013	392,013
	800,000	892,013	892,013
Less issue costs to be charged in future years	(4,574)	(6,343)	(6,172)
Less discount on issue to be unwound in future years	(3,000)	(3,222)	(3,027)
Total subordinated notes and perpetual subordinated capital securities	792,426	882,448	882,814

Subordinated notes

The Sterling 2014 Notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.75% 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.

The perpetual subordinated capital securities were redeemed in full by the Society on 21 June 2017.

Fair values

The fair value (based on quoted offer prices) of subordinated debt is £909.5m (30 June 2016: £941.2m; 31 December 2016: £952.0m).

12. Cash generated from operations

	Note	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Surplus before tax		119,667	244,345	405,149
Net finance costs/(income)	4	8,824	(127,906)	(260,221)
Share of profits of associates		(4,319)	(3,947)	(7,891)
Operating surplus		124,172	112,492	137,037
Central Fund claims and provisions incurred	3(II)	–	–	8,300
Operating surplus before Central Fund claims and provisions		124,172	112,492	145,337
Adjustments for				
Depreciation of plant and equipment	8	2,709	3,642	7,798
Amortisation of intangible assets	7	53	189	324
Impairment losses	8	–	–	8
Losses on sale and revaluation of fixed assets		336	744	1,685
(Losses)/gains on investments		(3,828)	519	3,271
Foreign exchange losses/(gains) on operating activities		2,229	(907)	(2,849)
Operating surplus before working capital changes and claims paid		125,671	116,679	155,574
Changes in pension obligations		6,573	4,109	7,112
Increase in receivables		(58,886)	(187,484)	(240,392)
Increase in inventories		(29)	(36)	(88)
Increase in payables		139,575	278,860	285,229
Increase/(decrease) in provisions other than for Central Fund claims		2,467	3,685	(2,187)
Cash generated from operations before claims paid		215,371	215,813	205,248
Claims paid in respect of corporate/insolvent members		–	–	(13,653)
Cash generated from operations		215,371	215,813	191,595

13. Commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £2.4m (30 June 2016: £0.2m; 31 December 2016: £0.1m). Commitments also arise under the fully repairing operating leases. These are included within provisions shown in the Group statement of financial position on page 31.

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 venture.

Services provided to Ins-sure Holdings Limited in the period ended 30 June 2017 included operating systems support and development, premises and other administrative services.

Structured Data Capture Limited, a company in which the Society holds a 33% interest, was incorporated on 14 June 2017 with a share capital of £3. The company has been set up as part of the 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 2017 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2017 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial periods/year together with information regarding the outstanding balances at 30 June 2017, 30 June 2016 and 31 December 2016.

	Six months ended 30 June 2017 £000	Six months ended 30 June 2016 £000	Full year 2016 (audited) £000
Sales to related parties			
Associates			
Ins-sure Holdings Limited	120	128	291
Structured Data Capture Limited	–	–	–
Xchanging Claims Services Limited	29	31	66
Joint venture			
The Message Exchange Limited	–	–	–
Purchases from related parties			
Associates			
Ins-sure Holdings Limited	1,532	1,255	5,017
Structured Data Capture Limited	–	–	–
Xchanging Claims Services Limited	–	–	–
Joint venture			
The Message Exchange Limited	230	256	498
Amounts owed by related parties			
Associates			
Ins-sure Holdings Limited	12	69	6
Structured Data Capture Limited	–	–	–
Xchanging Claims Services Limited	–	2	1
Joint venture			
The Message Exchange Limited	70	3	–
Amounts owed to related parties			
Associates			
Ins-sure Holdings Limited	–	30	1,494
Structured Data Capture Limited	–	–	–
Xchanging Claims Services Limited	–	10	–
Joint venture			
The Message Exchange Limited	38	40	38

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 Franchise Board may have an interest. Such transactions are on an arm's length basis.

15. Post balance sheet event

As part of the Corporation Operating Model (COM) programme, the Society is reviewing its rewards and recognition package. The aim of this review is to ensure that the Society offers a competitive and attractive package which is fair and consistent to all existing and future employees and which is in line with other employers, both within and beyond the financial services industry. As a result, the Society announced on 4 September 2017 a number of proposals regarding future pension provision for its employees, including the closure of Lloyd's Defined Benefit Pension Scheme to all members from 1 January 2018. With effect from that date, it is proposed that all existing members of the scheme will be automatically enrolled into the Lloyd's Group Personal Pension plan (GPP), and at the same time the GPP contribution rates will be increased from current levels. Following that announcement, the Society is entering into a collective consultation process for those in the Defined Benefit scheme, during which employee representatives will be elected and workshops will be held followed by meetings with affected individuals. Subject to that consultation, implementation of the proposed changes will take effect on 1 January 2018.

3.10

Society Report
Independent Review Report to the Society of Lloyd's

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

Our conclusion
We have reviewed the Society of Lloyd's condensed set of Group interim financial statements (the "interim financial statements") for the 6 month period ended 30 June 2017. 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 2017;
- the Group statement of comprehensive income for the period then ended;
- the Group statement of cash flows for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

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

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

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 September 2017

3.11

Society Report
Alternative Performance Measures (APMs)

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

Metric	Applicable part of the Interim Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Accident year ratio	Market Results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value-creating potential of the Lloyd's market.

3.11

Society Report
Alternative Performance Measures (APMs)

Metric	Applicable part of the Interim Report	Definition	Reason for use
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.

lloyds.com/financialresults