LLOYD'S

Half Year Results

Six months ended
30 June 2023

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At a Glance

Everything we do at Lloyd's is underpinned by our purpose: sharing risk to create a braver world. Our purpose speaks to the aspiration and impact of the market and is as true today as it was in Edward Lloyd's coffee shop back in 1688.

Our strategic priorities at a glance

Our four strategic priorities direct our efforts and help us create value for stakeholders in a complex and changing world. They are:

Performance

In the first half of 2023, the Lloyd's market reported an overall profit of £3,920m (HY 2022: loss of £1,801m), driven by both underwriting profit and investment return. Our combined ratio of 85.2% (HY 2022: 91.4%) reflects both our continued focus on delivering sustainable, profitable performance and relatively low major claims activity in the first half of the year. The market is exceptionally well capitalised and continues to have a prudent asset allocation, with the central solvency ratio increasing to 438% (FY 2022: 412%) and the market-wide solvency coverage ratio increasing to 194% (FY 2022: 181%). Financial markets had a mixed first half but delivered a net investment return of £1,808m before tax (HY 2022: £3,122m loss), supported by the unwind of valuation losses previously reported and the benefit of higher reinvestment yields.

Digitalisation

Our work to digitalise the Lloyd's and London markets through Blueprint Two continues to advance. The programme will deliver tangible efficiencies to the market, including reduced cost and complexity of doing business at Lloyd's. In the first half of the year, a joint team across Lloyd's, the London Market Joint Ventures and our market associations successfully delivered the publication of a new Core Data Record to standardise the data used across the London market, alongside the digital processing technology that will power the middle and back office of the London market. We continued to scale up our Faster Claims Payments solution to ensure customers receive timely payments in times of need.

Purpose

At the heart of our purpose is our ambition to build a more sustainable, resilient and inclusive market and society. In the first half of 2023 we continued our efforts to embed sustainability across our market by providing guidance and oversight on managing agents' ESG strategies. Lloyd's research platform, Futureset, convened a series of roundtables and industry discussions on new and emerging risks, including lower carbon technologies, to build awareness and drive innovation on the risks topping boardroom agendas. We also continued to convene His Majesty The King's Sustainable Markets Initiative (SMI) Insurance Task Force, bringing together leaders from the global insurance industry and beyond to support multi-sector transition and transformation and build climate resilience in global communities.

Culture

Our culture strategy continues to develop a diverse, inclusive and high performing culture across the Corporation and the market. The Corporation continues to exceed our 35% women in leadership target, with the market rising to 32%, while our one in three hiring ambition for ethnically diverse talent has brought around 1,700 diverse new hires into the market. Our efforts to support colleagues with disabilities saw Lloyd's achieve Gold Status on the Clear Assured accreditation framework, and be recognised as a Disability Confident Leader. We also continue to support social mobility in our market, placing 45th on the Social Mobility Foundation's Employer Index – up 30 places from last year.

Our performance: Financial key performance indicators

Gross written premium

£29,306m

HY 2022: £24,035m

Underwriting profit

£2,500m

HY 2022: £1,217m

Combined ratio

85.2%

HY 2022: 91.4%

Expense ratio

35.4%

HY 2022: 35.4%

Investment return

£1,808m

HY 2022: £(3,122)m

Result before tax

£3,920m

HY 2022: £(1,801)m

Total capital, reserves and subordinated loan notes

£40,754m

FY 2022: £40,205m

Central solvency coverage ratio

438%

FY 2022: 412%

Market-wide solvency coverage ratio

194%

FY 2022: 181%

Read more about our performance in the 'Market Results' and 'Society Report' sections. The above metrics are Alternative Performance Measures; see page 43 for definitions.

Introduction

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Chief Executive's Statement

John Neal
Chief Executive Officer, Lloyd's

"Lloyd's financial results for the first half of 2023 show we are now driving consistent improvement in profitability and an ability to grow sustainably."

If we cast our minds back five years, the message from our stakeholders – investors, regulators, customers, market participants – about what they needed from Lloyd's was clear.

Demonstrate market leading financial performance. Reduce the cost of doing business at Lloyd's and in the insurance industry. Show real leadership – in both the insurance solutions provided to customers, and the opportunities presented to the talent of tomorrow in our industry and across financial services.

We've faced a turbulent macro environment in the five years since, with a host of external shocks to navigate from a pandemic and political unrest, to conflict in Europe. Despite those conditions, Lloyd's has continued to drive the progress and performance that has enabled our market and our customers to build ever increasing confidence in the face of uncertainty.

All this means that, at the halfway point in 2023, we can say confidently – albeit with the caution required in an uncertain environment – that we are delivering on those three tasks set in 2018.

Our market is performing sustainably; digitalisation and discipline are helping address costs and drive future efficiencies; and we continue to provide leadership on the issues affecting society, whether supporting humanitarian efforts to address global food security in Ukraine or developing new and pioneering solutions to enable the transition to a lower carbon world.

Driving sustainable performance

Insurers are rightly judged on their ability to deliver sustainable performance and profitable growth – and Lloyd's financial results for the first half of 2023 show we are now driving consistent improvement in profitability and an ability to grow sustainably. This performance puts us in a strong position for the second half of the year.

In our underwriting, we continued to drive strong and sensible growth with gross written premiums increasing 21.9% to £29.3bn. An outstanding combined ratio of 85.2%, reflects continued improvement in our underwriting performance and discipline, supported by a robust underwriting profit of £2.5bn. That profitability is mirrored in the performance of our investments, generating an investment return of £1.8bn and contributing to an overall profit before tax of £3.9bn.

At the same time, our capital position strengthened further with a central solvency ratio of 438% and a market-wide solvency ratio of 194%, demonstrating our market's resilience and discipline through challenging conditions. The market expense ratio remained steady at 35.4%, with further cost improvements anticipated through our Blueprint Two digital transformation. Major claims represented 3.6% of losses in the first half of 2023, marking a relatively light period for catastrophe losses but giving us the necessary resilience for the – traditionally catastrophe-heavy – second half of the year.

Chief Executive's Statement continued

These results affirm our market's credibility and commitment to driving sustainable, profitable performance through a range of market conditions – as recognised in A.M. Best's decision to upgrade Lloyd's financial outlook to 'positive' in light of the market's financial strength. We remain on track to support the double digit growth for 2023 outlined in March, and have now introduced an additional layer of internal performance measurement – covering areas like market growth, capital strength and cultural diversity – to ensure our market builds on the positive progress seen in recent years.

Digitalisation: Creating a better, faster, cheaper and more resilient market

Our digital transformation through Blueprint Two has been a key focus for our market in recent years: not just as a necessary measure to thrive in a digital world, but as a means to drive efficiency and cost improvement in our market – something we anticipate coming through on our cost bases as the technology is delivered and embedded.

The first half of 2023 saw Lloyd's and the London Market Joint Ventures make important headway in our market's transformation journey.

For open market business, the London Market Group Data Council achieved the significant step of landing both the Core Data Record and a revised version of the Market Reform Contract, which will help set consistent data standards for our market and enable computable contracts. Meanwhile, in delegated business, the market continued to embed our Faster Claims Payments solution which is now available for over 80% of delegated authority business.

That strong progress means we are now on track to deliver the new technology to market firms from June 2024, three months earlier than originally planned, with testing for early adopters from Q4 2023. That in turn will allow us to focus on driving the adoption that ensures the benefits of Blueprint Two – for both our customers and our cost base – can be realised.

Providing leadership to our market and society

Insurance is a product made for uncertain times – and with the macro environment in the first half of 2023 remaining as volatile as the years before, our industry continued to innovate and adapt to support braver decision making around the world.

> "Insurance is a product made for uncertain times – and with the macro environment remaining as volatile as before, our industry has continued to innovate and adapt to support braver decision making."

Responding to the ongoing conflict in Ukraine, our market's pioneering insurance solutions enabled over 30 million tonnes of grain and fertiliser to be exported from Ukraine's ports through the UN-backed Black Sea Grain Initiative. Looking ahead to Ukraine's eventual reconstruction and rebuild, Lloyd's was pleased to support a number of future-facing initiatives including a new partnership with Vienna Insurance Group and global broker Aon enabling foreign (re)insurance to be placed in the country.

In responding to climate change, Lloyd's continued to publish advice and guidance to embed sustainability and transparency across our market, while developing innovative products and solutions through the Lloyd's Lab and Product Launchpad to get behind green growth opportunities like renewable technologies and carbon markets. Beyond our market, we continued to lead the Insurance Task Force of His Majesty The King's Sustainable Markets Initiative – enabling our industry to demonstrate our unique and vital contribution to helping society adapt and build resilience, particularly in climate-vulnerable countries around the world.

Finally, in supporting a more inclusive and representative culture, our most recent Market Policies & Practices (MP&P) return showed encouraging progress, with the proportion of women in leadership roles improving by two percentage points (to 32%) and the number of ethnic minority leaders increasing four points, to 9% – with approximately one third of market firms meeting our one in three ambition for ethnically diverse hires. We have a way to go yet, but it's steady progress and the numbers demonstrate that our interventions on culture – from our gender and ethnicity targets to our support for the market's diversity networks – are having the intended impact.

Collaborating towards a braver world

All in all, it was a strong six months for Lloyd's. Our results represent our market's best underwriting performance since 2007; our balance sheet is both profitable and resilient; and our strategic initiatives continue to drive us towards a more efficient, sustainable and inclusive market. Far from breeding complacency, that progress is spurring us on to execute our plans and drive growth through 2023 and into 2024.

Part of working at Lloyd's is having an awareness that our market is built on an ecosystem of collaborative relationships: so we know this progress has only been possible through the engagement of our employees, market firms and associations, investors and partners across government, regulation and other industries. It's why our purpose is sharing risk to create a braver world: because pooling our knowledge, expertise and resources remains the only sure-fire way to build resilience in an increasingly complex and connected landscape.

We're looking forward to seeing that collaboration continue as we drive the performance, efficiencies and leadership needed to support our customers through an uncertain world.

John Neal
Chief Executive Officer, Lloyd's

Market Commentary

Market results

The Lloyd's market has delivered a strong underwriting performance for the first six months of the year, reporting an underwriting profit of £2,500m (HY 2022: £1,217m) and a combined ratio of 85.2% (HY 2022: 91.4%). The improved profit in the period reflects the reward for disciplined underwriting furthered by strong new business growth and a period of low exposure to major claims.

Fair value gains in the first half of the year led to net investment income of £1,808m (HY 2022: net investment losses of £3,122m), aided by the unwind of valuation losses previously reported and the benefit of higher reinvestment yields. After accounting for foreign exchange losses of £186m (HY 2022: gains of £288m) and other net expenses of £202m (HY 2022: £184m), the market reported an overall profit before tax of £3,920m (HY 2022: overall loss before tax of £1,801m).

The strength of the performance in the first six months has built further resilience into the market as we progress into the second half of the year and a period of increased claims exposure.

Underwriting result

Gross written premiums increased by 21.9% to £29,306m (HY 2022: £24,035m) for the six months ended 30 June 2023.

Growth is driven by strong risk adjusted rate increase of 9.1% as well as 2.2% growth from new syndicates, 6.5% growth from existing syndicates and 4.1% due to foreign exchange benefit. From a line of business perspective, growth and rating increases were driven largely by the Property segment in particular, offset by less attractive conditions in some areas of Casualty.

The underwriting profit for the period increased to £2,500m (HY 2022: £1,217m) and the combined ratio of 85.2% represents a 6.2% improvement when compared with HY 2022 (HY 2022: 91.4%). The strong underwriting result was driven by improved major claims experience with fewer large loss events. The shape and geographical concentration of the Lloyd's Property book saw a relatively quiet first half of the year from a natural catastrophe perspective. Overall, the impact of major claims represented only 3.6% of the combined ratio down from 9.9% prior year. Contribution from prior year reserve releases of £797m has also benefited the combined ratio by 4.7% (HY 2022: 2.8%, £401m).

The expense ratio remains stable at 35.4% (HY 2022: 35.4%).

Investment review

The market reported a net investment gain of £1,808m for the first six months of 2023, representing an investment return of 1.9% (HY 2022: £3,122m loss, negative return of 3.6%).

Financial markets had a mixed first half of the year, with most assets starting the year positively in the first quarter, followed by more fluctuation in the second quarter. Government bond prices experienced heightened volatility over the first half of 2023. In January prices rose after the Bank of Japan kept its yield curve control targets in place and in March government bond prices rose due to the collapse of Silicon Valley Bank as investors moved to safer assets. Conversely, government bond prices fell in February, May and June due to inflation showing lower than expected signs of slowing down. This resulted in some markets expecting further rate hikes (for example, the UK) and for other markets, a lower likelihood of a pause or cuts to Central Banks rates. Credit markets provided positive excess returns over government bonds due to general demand for yield as investment-grade yields topped equity earnings yields for the first time in decades. Equity markets were the clear outperformers in the first six months of the year, with the S&P 500 returning +16.9%, largely driven by large technology companies due to the excitement around artificial intelligence.

Balance sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £40,754m at 30 June 2023, consistent with the £40,205m reported at 31 December 2022.

The Lloyd's market solvency ratios – both central and market-wide solvency ratios – have strengthened since 31 December 2022.

The central solvency ratio has increased to 438% from 412% at 31 December 2022 and the market-wide solvency ratio has increased to 194% from 181% at 31 December 2022. The central solvency ratio increase is primarily due to movements in the solvency capital requirement. The market-wide solvency ratio increase reflects profitability in the half-year and an increase in the discounting adjustment applied to technical provisions due to interest rate movements.

The strength and stability of the balance sheet has recently been recognised by A.M. Best, which upgraded its outlook for Lloyd's from 'stable' to 'positive'. This is an excellent result and an external validation of the quality and resilience of Lloyd's balance sheet.

Market Results

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

Statement of Council's responsibilities in respect of the interim pro forma financial statements

The interim pro forma financial statements ('interim PFFS') are prepared so that the financial results of the Society of Lloyd's ('Society') 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 in accordance with the basis of preparation set out in note 2.

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

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

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

Interim pro forma financial statements

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

Society of Lloyd's Group interim financial statements

The interim condensed consolidated financial statements of the Society comprise the interim financial statements of the Society and its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates and joint ventures (the 'Group').

Pro Forma Profit and Loss Account and Statement of Comprehensive Income

(For the six months ended 30 June 2023)

Profit and Loss Account	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Six months ended 30 June 2022 £m
Technical account					
Gross written premiums	9	29,306		24,035	
Outward reinsurance premiums		(8,883)		(7,445)	
Net written premiums			20,423		16,590
Change in the gross provision for unearned premiums		(5,967)		(4,593)	
Change in the provision for unearned premiums, reinsurers' share		2,476		2,146	
Change in net provision for unearned premiums			(3,491)		(2,447)
Earned premiums, net of reinsurance	9		16,932		14,143
Allocated investment return transferred from the non-technical account			769		(1,331)
Gross claims paid		10,906		9,810	
Claims paid, reinsurers' share		(3,485)		(3,564)	
Net claims paid			7,421		6,246
Change in provision for gross claims		873		2,034	
Change in provision for claims, reinsurers' share		141		(364)	
Change in net provision for claims			1,014		1,670
Claims incurred, net of reinsurance	9		8,435		7,916
Net operating expenses	9, 10		5,997		5,010
Balance on the technical account for general business			**3,269**		(114)
Non-technical account					
Balance on the technical account for general business			3,269		(114)
Investment return on syndicate assets		853		(1,521)	
Notional investment return on members' funds at Lloyd's	6	843		(1,432)	
Investment return on Society assets		112		(169)	
Total investment return			1,808		(3,122)
Allocated investment return transferred to the technical account			(769)		1,331
(Loss)/profit on foreign exchange			(186)		288
Other income	7		40		55
Other expenses	7		(242)		(239)
Result for the financial period before tax	8		**3,920**		(1,801)

All operations relate to continuing activities.

Statement of Comprehensive Income	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Result for the financial period	8	3,920	(1,801)
Currency translation differences		(202)	236
Other comprehensive loss in the syndicate accounts		-	(32)
Remeasurement gain on pension assets and liabilities in the Society accounts		12	82
Total comprehensive income/(expense) for the financial period		**3,730**	(1,515)

Pro Forma Balance Sheet

(As at 30 June 2023)

	Note	30 June 2023 £m	30 June 2023 £m	31 December 2022 £m	31 December 2022 £m
Financial investments	11		82,705		83,583
Deposits with ceding undertakings			550		899
Reinsurers' share of technical provisions					
Provision for unearned premiums		7,310		4,847	
Claims outstanding		28,111		29,408	
			35,421		34,255
Debtors					
Debtors arising out of direct insurance operations		16,112		14,162	
Debtors arising out of reinsurance operations		11,737		9,418	
Other debtors		1,165		887	
			29,014		24,467
Other assets					
Tangible assets		23		23	
Cash at bank and in hand	12	11,737		12,289	
Other		157		151	
			11,917		12,463
Prepayments and accrued income					
Accrued interest and rent		194		166	
Deferred acquisition costs		6,292		5,387	
Other prepayments and accrued income		417		310	
			6,903		5,863
Total assets			**166,510**		161,530
Members' funds at Lloyd's	6	32,329		34,139	
Members' balances	13	5,209		2,961	
Members' assets (held severally)			37,538		37,100
Central reserves (mutual assets)			2,612		2,502
Total capital and reserves	8		40,150		39,602
Subordinated loan notes	2		604		603
Total capital, reserves and subordinated loan notes			**40,754**		40,205
Technical provisions					
Provision for unearned premiums		28,318		23,228	
Claims outstanding		78,518		80,905	
			106,836		104,133
Deposits received from reinsurers			1,546		1,545
Creditors					
Creditors arising out of direct insurance operations		1,265		1,016	
Creditors arising out of reinsurance operations		11,579		10,254	
Other creditors including taxation		2,598		2,705	
Senior debt	2	303		303	
			15,745		14,278
Accruals and deferred income			1,629		1,369
Total capital, reserves and liabilities			**166,510**		161,530

Approved by the Council on 6 September 2023 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the six months ended 30 June 2023)

	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Result for the financial period before tax		3,920	(1,801)
Increase in gross technical provisions		4,515	11,862
Increase in reinsurers' share of gross technical provisions		(2,684)	(4,569)
Increase in debtors		(5,603)	(5,990)
Increase in creditors		2,417	3,140
Movement in other assets/liabilities		(744)	(921)
Investment return		(1,808)	3,122
Depreciation, amortisation and impairment charge		8	6
Tax paid		(21)	(6)
Foreign exchange		590	(1,801)
Other		16	(4)
Net cash inflows from operating activities		**606**	3,038
Cash flows from investing activities			
Purchase of equity and debt instruments		(24,313)	(23,032)
Sale of equity and debt instruments		23,183	20,942
Purchase of derivatives		(147)	(146)
Sale of derivatives		159	124
Investment income received		739	283
Other		168	(105)
Net cash outflows from investing activities		**(211)**	(1,934)
Cash flows from financing activities			
Net (distributions made)/losses collected from members		(546)	318
Net capital transferred into/(out of) syndicate premium trust funds		77	(344)
Interest paid on subordinated and senior loan notes		(19)	(19)
Net movement in members' funds at Lloyd's		(381)	612
Other		51	(180)
Net cash (outflows)/inflows from financing activities		**(818)**	387
Net (decrease)/increase in cash and cash equivalents		**(423)**	1,491
Cash and cash equivalents at 1 January		13,781	12,416
Foreign exchange differences on cash and cash equivalents		(168)	288
Cash and cash equivalents at 30 June	14	**13,190**	14,195

Notes to the Interim Pro Forma Financial Statements

(For the six months ended 30 June 2023)

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 general insurance companies.

2. Basis of preparation

General

The interim PFFS have been prepared by aggregating financial information reported in syndicate returns, members' funds at Lloyd's (FAL) and the interim financial statements of the Society of Lloyd's (the 'Society') on pages 27 to 41. The Council considers the environment in which the Society of Lloyd's and the Lloyd's market participants are operating and any associated risks which could have an impact on the reasonableness of financial information presented in the interim PFFS. Where the Council considers it appropriate, central adjustments may be included in the interim PFFS to reflect the impact of any additional risks, as deemed necessary in preparing the interim PFFS. Having assessed the principal risks, the Council considers it appropriate to adopt the going concern basis of accounting in preparing the interim PFFS; the going concern statement of the Society is included within the Society Report on page 23.

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

The profit and loss account in the interim PFFS aggregates the syndicate results, the notional investment return on FAL and the results of the Society. 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 compliance 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 considers material to enable the interim PFFS to provide a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies. Application of UK GAAP is not practicable for the following items:

- Use of the aggregation basis to prepare the interim PFFS;
- Notional investment return on members' FAL;
- The statement of changes in equity;
- Taxation; and
- Related party transactions.

The approach taken in preparing the interim PFFS is outlined below in (a) to (e):

(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 for the reasons detailed further below. 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 accounting standards, by reference to the accounting policies that are deemed most appropriate by the managing agents.

Where different accounting policies have been selected by managing agents, no adjustments are made to align the bases of recognition and measurement in the interim PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances, except for those relating to inter-syndicate loans, Special Purpose Arrangements (SPAs) and reinsurance-to-close (RITC) arrangements between syndicates. Transactions between syndicates and the Society are also eliminated in the interim PFFS. These adjustments are described below:

Inter-syndicate loans

The syndicate returns report debtor and creditor balances for inter-syndicate loans totalling £477m (FY 2022: £447m). 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

Due to the nature of SPAs, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPAs. 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 transactions arising from the insurance contracts between SPAs and the host syndicates have been eliminated. The key impact of this elimination is that gross written premium is reduced by £277m (HY 2022: £393m). 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, with the exception of RITC transactions as detailed below.

Reinsurance-to-close arrangements between syndicates

The aggregated results include arrangements where prior years of account are ceded to other syndicates. Due to the nature of the arrangements, the accepting syndicates report these as current period transactions impacting gross written premiums, net earned premiums and net incurred claims. This leads to an overstatement of such balances for the Lloyd's market as a whole. To provide users of the PFFS with a more meaningful presentation of the market's figures, such RITC arrangements between syndicates for prior years of account have been eliminated. The impact of this elimination is a reduction in gross written premium, net earned premiums and net incurred claims of £1,953m (HY 2022: £1,008m), £1,090m (HY 2022: £817m), and £1,090m (HY 2022: £816m), respectively. The elimination does not affect the interim PFFS result or the balance due to members.

Notes to the Interim Pro Forma Financial Statements continued

(For the six months ended 30 June 2023)

2. Basis of preparation continued

(a) Aggregation continued

Transactions between syndicates and the Society

Transactions between syndicates and the Society are also eliminated in the interim PFFS. These adjustments are described below:

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society interim financial statements;
- Syndicate loans to the Central Fund are reported as assets in the syndicate returns and as equity in the Society financial statements. Interest on the loans is reported as investment income in syndicate returns and as a reduction in equity in the Society's interim financial statements;
- Technical insurance-related transactions and balances existing between the syndicates and the subsidiaries of the Society are reported in both the syndicate returns and in the Society interim financial statements;
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls, and do not have the resources to meet those cash calls, are reported as a profit and loss charge and balance sheet liability in the Society financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and at the balance sheet date will report the outstanding liability within members' balances; and
- Loans funding statutory insurance deposits and other deposits received from syndicates are reported as assets within the syndicate returns and as liabilities in the Society financial statements.

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

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 13, which, along with the Society's interim Group Statement of Changes in Equity (on page 30), 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 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. 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 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 liability. 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 loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 10 to the Society interim financial statements on page 40 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance investment in the Future at Lloyd's strategy. Note 10 to the Society interim financial statements on page 41 provides additional information.

Society interim financial statements

The interim PFFS include the results and capital and reserves reported in the interim financial statements of the Society of Lloyd's, comprising the interim consolidated financial statements of the Society and its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates and joint ventures.

Notes to the Interim Pro Forma Financial Statements continued

(For the six months ended 30 June 2023)

3. Notes to the accounting policies

(a) General

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 policies are consistent with those adopted in the PFFS in the 2022 Annual Report.

The accounting policies applied in preparing the interim PFFS are unchanged from those adopted for the previous annual reporting period. Therefore, no restatement of comparative amounts presented in the interim PFFS is required.

(b) Members' funds at Lloyd's

FAL are valued in accordance with 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 who 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 PFFS in the 2022 Annual Report.

(c) Society of Lloyd's

The accounting policies adopted in the Society interim financial statements are set out on page 32. The Society's interim financial statements for the six months ended 30 June 2023 have been prepared under UK GAAP.

4. Variability

Movements in reserves are based upon estimates as at 30 June 2023 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 net surplus of £797m (HY 2022: net surplus £401m).

5. Lloyd's Private Impact Fund

In 2023, the Society invested in the Lloyd's Private Impact Fund (LPIF) which comprises a range of privately held equity impact investments, classified as level 3 in the fair value hierarchy as a market value is not readily available. The fund is managed by a third-party investment manager. Agreed valuation techniques, which will include inputs such as discount rates, models and comparable market data to establish the fair value of the underlying private equity impact investments, are applied on a quarterly basis by an Alternative Investment Fund Manager (AIFM) acting as a valuation agent for the fund, independently of the fund managers.

The Society is currently the sole investor in the LPIF, which qualifies as a Special Purpose Entity (SPE), and under the conditions of FRS102 the fund is considered to be a subsidiary of the Society. However, the fund qualifies as an unconsolidated subsidiary as it is held as part of an investment portfolio, and is therefore accounted for at fair value as an investment on the balance sheet, with changes in fair value being recognised through profit and loss.

6. Members' funds at Lloyd's

The valuation of FAL in the balance sheet totals £32,329m (FY 2022: £34,139m). The notional investment return on FAL included in the non-technical profit and loss account totals £843m (HY 2022: £(1,432)m).

7. Society of Lloyd's

As stated in note 2(a), syndicates and the Society separately report the transactions and balances for technical insurance related transactions, members' subscriptions and other charges, Central Fund contributions and interest on syndicate loans. These balances are reversed from the Society's results to arrive at the adjusted result of the Society included in the interim PFFS.

The results of the Group interim financial statements of the Society included in the profit and loss account are a profit of £315m (HY 2022: £252m) in the technical account and a loss of £212m (HY 2022: loss of £141m) in the non-technical account.

Other income of £40m (HY 2022: £55m) contains £31m (HY 2022: £54m) of Society income, together with £9m of other income (HY 2022: £1m other income) reported by the market. The other expenses of £242m (HY 2022: £239m) are entirely driven by the Society results.

Notes to the Interim Pro Forma Financial Statements continued

(For the six months ended 30 June 2023)

8. Aggregation of results and net assets

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

Profit and loss account	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Result per syndicate interim returns	2,974	(479)
Adjusted result of the Society	103	110
Notional investment return on members' funds at Lloyd's	843	(1,432)
Result for the financial period before tax	**3,920**	(1,801)

Capital and reserves	30 June 2023 £m	31 December 2022 £m
Net assets per syndicate interim returns	5,327	3,006
Adjusted net assets of the Society	2,494	2,457
Members' funds at Lloyd's	32,329	34,139
Total capital and reserves	**40,150**	39,602

Transactions between syndicates and the Society which have been reported within both the syndicate returns and the Society interim financial statements have been eliminated in the interim PFFS as set out in note 2(a) and 7.

9. Segmental analysis

The syndicate returns to the Society 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 2023	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	11,196	5,727	(3,197)	(1,880)	650
Property	7,908	4,344	(1,848)	(1,744)	752
Casualty	6,530	4,309	(2,138)	(1,767)	404
Marine, Aviation and Transport	2,296	1,615	(743)	(610)	262
Energy	908	548	(280)	(182)	86
Motor	434	364	(217)	(130)	17
Life	34	25	(12)	(9)	4
Total from syndicate operations	**29,306**	**16,932**	**(8,435)**	**(6,322)**	**2,175**
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				325	325
Interim PFFS premiums and underwriting result	**29,306**	**16,932**	**(8,435)**	**(5,997)**	**2,500**
Allocated investment return transferred from the non-technical account					**769**
Balance on the technical account for general business					**3,269**

Notes to the Interim Pro Forma Financial Statements continued

(For the six months ended 30 June 2023)

9. Segmental analysis continued

Six months ended 30 June 2022	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	9,268	4,746	(2,848)	(1,599)	299
Property	5,693	3,836	(2,171)	(1,510)	155
Casualty	6,030	3,507	(1,670)	(1,412)	425
Marine, Aviation and Transport	1,829	1,270	(770)	(474)	26
Energy	783	457	(262)	(161)	34
Motor	402	304	(180)	(108)	16
Life	30	23	(15)	(7)	1
Total from syndicate operations	24,035	14,143	(7,916)	(5,271)	956
Transactions between syndicates and the Society (notes 2 and 7) and insurance operations of the Society				261	261
Interim PFFS premiums and underwriting result	24,035	14,143	(7,916)	(5,010)	1,217
Allocated investment return transferred from the non-technical account					(1,331)
Balance on the technical account for general business					(114)

10. Net operating expenses

The following items have been (charged)/credited in arriving at the balance on the technical account for general business:

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Acquisition costs	(6,381)	(5,291)
Change in deferred acquisition costs	1,111	840
Administrative expenses	(1,567)	(1,223)
Reinsurance commissions and profit participation	840	664
Total operating expenses	**(5,997)**	(5,010)

11. Financial investments

	30 June 2023 £m	31 December 2022 £m
Shares and other variable yield securities	9,499	9,638
Debt securities and other fixed income securities	60,890	61,072
Participation in investment pools	2,898	2,695
Loans and deposits with credit institutions	9,168	9,911
Other investments	250	267
Total financial investments	**82,705**	83,583

12. Cash at bank and in hand

Cash at bank and in hand of £11,737m (FY 2022: £12,289m) includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £7,280m at 30 June 2023 (FY 2022: £7,661m).

Notes to the Interim Pro Forma Financial Statements continued

(For the six months ended 30 June 2023)

13. Members' balances

	Six months ended 30 June 2023 £m	Year ended 31 December 2022 £m
Balance at 1 January	2,961	2,208
Result for the period per syndicate interim returns/annual accounts	2,974	469
(Distributions made)/losses collected in relation to closure of underwriting years	(780)	102
Advance distributions from open underwriting years	(83)	(53)
Cash calls requested (but not yet paid)	317	311
Net movement on funds in syndicate (see note below)	77	(298)
Foreign exchange (losses)/gains	(161)	273
Other	(96)	(51)
Balance at 30 June/31 December	**5,209**	2,961

Members participate in 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 members' FAL 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 who only participate in 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 2023 there was £3,507m (FY 2022: £3,474m) 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'.

14. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	30 June 2023 £m	30 June 2022 £m
Cash at bank and in hand	11,737	12,581
Short-term deposits with credit institutions	1,757	1,897
Overdrafts	(304)	(283)
Cash and cash equivalents	**13,190**	14,195

Of the cash and cash equivalents, £261m (HY 2022: £408m) is held in regulated bank accounts in overseas jurisdictions.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2023 Lloyd's Interim Pro Forma Financial Statements

The Council of Lloyd's engaged us to undertake a limited assurance engagement in respect of the preparation of the interim Pro Forma Financial Statements ('the interim PFFS') for the 6 months ended 30 June 2023 as set out on pages 10 to 18 in Lloyd's Half Year Results 2023. The interim PFFS have been compiled by the Council of Lloyd's by aggregating financial information reported in syndicate returns, the Society of Lloyd's schedules supporting its condensed consolidated interim financial statements, and Members' Funds at Lloyd's.

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 PFFS for the six months ended 30 June 2023 have 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 2023, the Pro Forma Profit and Loss account, the Pro Forma Statement of Comprehensive Income, the Pro Forma Statement of Cash Flows for the six months then ended and the notes to the interim PFFS.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Half Year Results 2023 for the six months ended 30 June 2023.

The financial reporting framework that has been applied in the preparation of the interim PFFS is set out in note 2, the 'basis of preparation'.

Professional standards applied and level of assurance

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

Our Independence and Quality Control

We complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour that are at least as demanding as the applicable provisions of the International Ethics Standards Board for Accountants (IESBA)'s International Code of Ethics for Professional Accountants (including International Independence Standards).

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

Work done

We are required to plan and perform our work in order to address the areas where we have identified that a material misstatement is likely to arise in the compilation of the interim PFFS.

Our procedures consisted principally of:

- making enquiries to obtain an understanding of how the Council of Lloyd's has compiled the interim PFFS from the syndicate interim returns, the Society of Lloyd's schedules supporting its condensed consolidated interim financial statements, and Members' Funds at Lloyd's;
- obtaining an understanding of the nature of adjustments made to this information in the preparation of the interim PFFS, and applying review procedures over the compilation of the interim PFFS; and
- reviewing key reconciliations over the Members' Funds at Lloyd's portfolio; and
- evaluating the overall presentation of the interim PFFS.

This work is performed in order to provide us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim PFFS is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2. We do not independently assess and do not conclude on the appropriateness of that basis of preparation.

Our work also did not involve assessing the quality of the International Standard on Review Engagements (UK) 2410 (Revised) ('ISRE 2410 (R)') reviews performed by the respective auditors over the syndicate returns or the Society of Lloyd's condensed consolidated interim financial statements, nor performing any audit or review procedures over the financial or other information of the syndicates or Society of Lloyd's.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the Preparation of the 2023 Lloyd's Interim Pro Forma Financial Statements continued

The responsibilities of the Council of Lloyd's and our responsibilities

The Council of Lloyd's is responsible for establishing and determining the suitability of the basis for preparing the interim PFFS and the preparation and approval of the interim PFFS in accordance with that basis of preparation. According to the Statement of Council's Responsibilities and Lloyd's Interim Report, the interim PFFS are prepared so that the financial results of the Society of Lloyd's and its members taken together, and their net assets, can be compared as closely as possible with the interim financial reports of general insurance companies.

We are responsible for:

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

Intended users and purpose

This report, including our conclusion, has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 5 September 2023. Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which have come to our attention in accordance with the engagement letter and for no other purpose. We permit this report to be disclosed in the Lloyd's Half Year Results 2023, to assist the Council of Lloyd's in responding to their governance responsibilities by obtaining an independent assurance report in connection with the preparation of 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

6 September 2023

Society Report

Contents

Interim Financial Review

Profit before tax

The Society achieved a profit before tax for the period of £186m (HY 2022: £172m) as set out below:

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Corporation of Lloyd's £m	**Lloyd's Central Fund £m**	**Society total £m**	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Technical account						
Earned premiums, net of reinsurance	–	–	–	–	–	–
Other technical income	4	–	4	13	–	13
Claims incurred, net of reinsurance	–	–	–	–	–	–
Net operating income	16	–	16	–	–	–
Balance on the technical account for general business	**20**	**–**	**20**	13	–	13
Non-technical account						
Total investment return	26	86	112	(16)	(132)	(148)
Profit/(loss) on exchange	1	(115)	(114)	31	168	199
Non-technical income	177	202	379	163	157	320
Non-technical operating expenses	(169)	(42)	(211)	(181)	(31)	(212)
Profit before tax	**55**	**131**	**186**	10	162	172

The technical account reflects the income and expenses related to the Society's insurance business carried out by its subsidiaries, Lloyd's Europe and Lloyd's China, which is fully reinsured to the Lloyd's syndicates. As a result, the net underwriting result (premiums less claims and related expenses) is nil, except for the ceding commission earned by Lloyd's Europe and Lloyd's China for their reinsurance to the Lloyd's syndicates, which has increased compared to the prior period due to growth in reinsurance business ceded. Also, in the current period, income generated from the recovery of secondee expenses of £3m (HY 2022: £9m) has been reclassified from other technical income to net operating income.

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Gross written premiums	2,026	1,789
Outward reinsurance premiums	(2,026)	(1,789)
Net written premiums	**–**	–

Gross written premium has increased by 13%, driven by increases on the Lloyd's Europe portfolio with a 6% underlying premium growth, driven by rate adjustments in the current year. Lloyd's China remained relatively flat in the period. The gross loss ratio has decreased in the period, consistent with the trend observed across the market where we have experienced a relatively benign natural catastrophe exposure compared to the prior period challenges arising from the heightened inflationary environment and the conflict in Ukraine.

The non-technical account reflects the income and expenses related to the Society's business, other than effecting contracts of insurance. Non-technical income for the Society increased to £379m during the first half of 2023 (HY 2022: £320m) as a result of the increase in premiums written across the Lloyd's market, which is the driver of the Society's key revenue streams – member subscriptions, Central Fund contributions and overseas operating charges.

Non-technical operating expenses have remained stable at £211m (HY 2022: £212m). Whilst there has been a decrease in project expenditure in the current period, including the Future at Lloyd's programme, these savings were partially offset by increases in amortisation costs as projects have gone live. Further, as a result of the partial redemption of the subordinated notes in late 2022, we have benefited from a reduction in interest costs compared to the prior period. Offsetting this benefit is an increased tax provision in the current period and higher premises costs, largely driven by higher energy prices.

Group Interim Review continued

Investment performance

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Investment income	56	44
Unrealised gains/(losses) on investments	57	(191)
Investment expenses and charges	(1)	(1)
Total investment return	**112**	(148)

The Society's investments, mostly held within the Central Fund, produced a positive return of £112m or 2.0% during the first half of the year (HY 2022: £(148)m, (2.9)%). This return excludes exchange rate movements, which are reported in the Group profit and loss: non-technical account under profit/(loss) on exchange. The investment performance was driven by net market value gains on the revaluation of equities and interest on fixed income investments as a result of higher interest rates for short-term deposits and bonds and strong returns from equity markets in the first six months of the year.

Results summary

The profit after tax for the six months to 30 June 2023 was £141m (HY 2022: £141m), demonstrating the Society's stability in performance. Net other comprehensive expenses for the period were £21m (HY 2022: income of £106m), predominantly due to exchange differences on translating foreign operations, partially offset by a remeasurement gain on the Society's pension assets and liabilities. As a result, the net assets of the Society increased by £110m in the six months to 30 June 2023 to £3,393m (FY 2022: £3,283m), further strengthening the balance sheet position.

Solvency

The Society's solvency position is set out below:

	30 June 2023 £m	31 December 2022 £m
Central assets at 30 June/31 December	3,393	3,283
Subordinated debt	604	603
Total	**3,997**	3,886
Solvency valuation adjustments	1,703	1,678
Available central own funds to meet the Central Solvency Capital Requirement (SCR)	**5,700**	5,564
Excess central own funds not eligible to meet the Central SCR	–	–
Eligible central own funds available to meet the Central SCR	**5,700**	5,564
Central SCR	1,300	1,350
Central solvency ratio	**438%**	412%

The Central SCR covers central risks of the Society. This includes the risk that members may have insufficient capital to meet their losses. The Central SCR may be covered only by central eligible own funds of the Society.

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. It also includes recognition of the callable layer, which may be taken from member-level capital to strengthen central resources.

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. The increase in the Central SCR and the partial redemption of the subordinated notes has meant that Lloyd's Tier 2 and Tier 3 central capital did not exceed 50% of the Central SCR as at 30 June 2023 (FY 2022: did not exceed).

Based on central own funds eligible to meet the Central SCR of £5.7bn (FY 2022: £5.6bn), the solvency ratio is 438% (FY 2022: 412%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

The central solvency ratio reported above is based on the SCR which has been calculated using the latest approved version of the Lloyd's Internal Model.

Going concern statement

After making enquiries and considering management's assessment of the financial position of the Society, the members of the Council consider it appropriate to adopt the going concern basis of accounting in preparing the Society's interim financial statements.

Council of Lloyd's Statement of Principal Risks and Uncertainties

The Corporation continues to identify, manage and monitor the principal current and emerging risks which could have a significant impact on Lloyd's business, and the actions we need to take to reduce or mitigate the risks.

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

- A continued focus on sustainable market performance and oversight;
- Geopolitical risks, including the conflict in Ukraine;
- The economic environment with high interest rates, recession and inflationary pressures;
- Delivery of major change programmes, including Blueprint Two;
- Activities and operations across our International Network;
- Operational resilience and evolving cybersecurity threats; and
- Climate change.

The status of these risks is monitored by the Lloyd's Risk Committee and the Council of Lloyd's.

Principal risks

The changing and evolving external landscape poses significant uncertainty, and unexpected events can become significant risks. These following areas are being actively monitored by Lloyd's to provide assurance that risks, issues and impacts are appropriately managed:

Risk theme	Mitigation
Sustainable market performance and oversight Risk that Lloyd's businesses suffer losses or erode their capital base due to a failure to respond to changing market conditions.	Lloyd's enhanced principle-based oversight framework was implemented in 2022 and continues to be embedded, with a multi-year embedding plan in place to ensure that the framework meets its objectives and instils further confidence in key stakeholders. The 2024 business planning process takes place in a complex economical and geopolitical environment, and the focus will be on sustainable performance in this context. The syndicate categorisation outputs of the framework form a crucial input to the level of challenge that syndicate plans will be subject to, with a commitment to ensuring risk-based oversight throughout the planning process and into the ongoing oversight activities.
Geopolitical volatility Risk that Lloyd's businesses suffer losses and operational disruption as a result of changing geopolitical pressures and global events.	The conflict in Ukraine continues to be actively monitored by Lloyd's to provide assurance that risks, issues and impacts are appropriately managed as the situation evolves. We have worked closely with the market to monitor claims development and reserve adequacy, and our industry continues to work closely with governments and regulators across the world to monitor and ensure we interpret and enact sanctions requirements, together with other legal and regulatory obligations, appropriately. Lloyd's conducts regular scenario modelling, asking market participants to assess the potential impacts of plausible but hypothetical geopolitical situations across areas like capital, operations and business continuity.
Macroeconomic uncertainty Risk that Lloyd's businesses suffer losses as a result of the external macroeconomic challenges, including high inflation, high interest rates, financial market volatility and increased risk of recession.	The macroeconomic environment continues to be monitored closely, including in relation to the impact of inflation on various risks including reserves, pricing and investments. Lloyd's continues to operate a cross-functional working group to monitor and manage associated risks and conduct scenario analysis to stress-test Lloyd's business plan under different scenarios. We have also issued communications to the market outlining expectations for the explicit consideration of the inflation outlook within reserves, pricing and investments, and have conducted a thematic review to factor inflation into reserving decisions.

Council of Lloyd's Statement of Principal Risks and Uncertainties continued

Risk theme	Mitigation
Delivery of major change programmes, including Blueprint Two Risk that Lloyd's businesses suffer losses and operational disruption as a result of failing to deliver major change programmes.	Progress against the digitalisation agenda continues in 2023 and remains a focus for risk monitoring as the programme continues with the build and testing of the solutions. Through 2023, Lloyd's has held market-wide engagement sessions providing further details on the programme and tracking the progress made in delivering the digital solutions outlined in Blueprint Two, as well as demonstrating how brokers and carriers will be able to work effectively together when using different processes and technology, supported by central digital services.
Activities and operations across our International Network Risk that Lloyd's businesses suffer losses as a result of failing to embed a common risk Framework across the global network.	The Markets function led a piece of work to document Lloyd's International activities and operations, bringing clarity to governance and accountability for delivery of activities. A common risk framework was developed and embedded into operations (known as the One Risk Framework) to further progress effective risk accountability across the international offices. Lloyd's has sought to improve risk identification and assessment in the international offices through targeted visits and training activities, which continue to surface risk insight.
Operational resilience and evolving cybersecurity threats Risk that Lloyd's businesses suffer losses and operational disruption as a result of not maintaining robust and resilient operations, embedding cyber resilience and effective third-party risk management.	The risk environment continues to develop as persistent threats from the possibility of major or systemic cyber or other operational events continue to endure. As businesses become ever more connected, and reliant on fewer service providers, risk management remains fundamental to ensure continuity of operations in the event of material service disruption. Increasing scrutiny from regulatory authorities continues to be applied to material relationships entered into by businesses. The Corporation appointed Bob James to the role of Chief Operating Officer (COO) in March 2023 and recently completed its annual self-assessment of its Operational Resilience Framework and Important Business Services, with pertinent mitigation identified. The levels of operational resilience in managing agents' businesses and the risk of disruption to these firms from material third-party arrangements, shared service providers or other operational events are the responsibility of the managing agents. This continues to be assessed by the Corporation through our principles-based oversight framework.
Climate change Risk that Lloyd's businesses suffer losses and operational disruption as a result of physical, transition and litigation risks.	While there is inherent complexity and uncertainty in how the future climate pathway will develop, Lloyd's has controls and processes in place to manage and mitigate the exposures as they emerge, including a robust syndicate business plan and capital setting process, and an annual review of reserves. Lloyd's continues to develop its tools to assess and monitor the impact of climate change across physical risk, transition risk and litigation risk. Market guidance and best practice has been shared with the market on establishing an Environmental, Social and Governance strategy, including sustainable underwriting and responsible investment.

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 Financial Reporting Standard 104 ‘Interim Financial Reporting’ which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2023;
- The Chief Executive’s Statement and the Society interim financial review (constituting the interim management report) includes 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; and
- The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

On behalf of the Council of Lloyd’s

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

6 September 2023

Group Profit and Loss Account and Statement of Comprehensive Income

(For the six months ended 30 June 2023)

Profit and Loss Account	Note	**Six months ended 30 June 2023** £m	**Six months ended 30 June 2023** £m	Six months ended 30 June 2022 £m	Six months ended 30 June 2022 £m
Technical account					
Gross written premiums	3	2,026		1,789	
Outward reinsurance premiums	3	(2,026)		(1,789)	
Change in the gross provision for unearned premiums		(293)		(447)	
Change in the provision for unearned premiums, reinsurers' share		293		447	
Earned premiums, net of reinsurance			–		–
Other technical income			4		13
Gross claims paid		(652)		(611)	
Claims paid, reinsurers' share		652		611	
Change in provision for gross claims		(215)		(640)	
Change in provision for claims, reinsurers' share		215		640	
Claims incurred, net of reinsurance			–		–
Net operating income	4		16		–
Balance on the technical account for general business			**20**		13
Non-technical account					
Balance on the technical account for general business			20		13
Investment income	5	56		44	
Unrealised gains/(losses) on investments	5	57		(191)	
Investment expenses and charges	5	(1)		(1)	
Total investment return			112		(148)
(Loss)/profit on foreign exchange			(114)		199
Non-technical income	12		379		320
Non-technical operating expenses	12		(211)		(212)
Profit before tax			**186**		172
Tax charge on profit	6		(45)		(31)
Profit after tax			**141**		141

Statement of Comprehensive Income	Note	**Six months ended 30 June 2023** £m	Six months ended 30 June 2022 £m
Profit after tax		141	141
Other comprehensive income:			
Exchange differences on translating foreign operations		(32)	22
Remeasurement gains on pension assets and liabilities	7	12	108
Share of remeasurement gain on associates and joint venture pension liabilities		–	1
Tax charge on components of other comprehensive income		(1)	(25)
Other comprehensive (expense)/income for the period, net of tax		**(21)**	106
Total comprehensive income for the period		**120**	247

Group Balance Sheet

(As at 30 June 2023)

		30 June 2023		31 December 2022	
	Note	£m	£m	£m	£m
Intangible assets			46		54
Investments					
Financial investments	8	4,740		4,370	
Investment in associates and joint ventures		45		42	
			4,785		4,412
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,163		1,937	
Claims outstanding		7,292		7,311	
			9,455		9,248
Debtors					
Debtors arising out of direct insurance operations		2,378		2,086	
Debtors arising out of reinsurance operations		1,464		1,491	
Other debtors		19		27	
			3,861		3,604
Other assets					
Tangible assets		23		23	
Cash at bank and in hand		1,062		1,167	
Other assets		3		12	
			1,088		1,202
Prepayments and accrued income					
Accrued interest and rent		24		20	
Deferred acquisition costs		391		356	
Other prepayments and accrued income		107		144	
			522		520
Pension scheme assets	7		70		57
Total assets			**19,827**		19,097

Group Balance Sheet continued

(As at 30 June 2023)

		30 June 2023		31 December 2022	
	Note	£m	£m	£m	£m
Capital and reserves					
Revaluation reserve		15		15	
Translation reserve		(7)		25	
Syndicate loans	9	514		514	
Profit and loss account		2,871		2,729	
			3,393		3,283
Subordinated debt	10(i)		604		603
Technical provisions					
Provision for unearned premiums		2,163		1,937	
Claims outstanding		7,292		7,311	
			9,455		9,248
Provisions for other risks					
Provisions for pensions and similar obligations	7	3		3	
Tax provisions		10		2	
Other provisions		61		59	
			74		64
Deposits received from reinsurers			1,193		1,161
Creditors					
Creditors arising out of direct insurance operations		561		509	
Creditors arising out of reinsurance operations		3,417		3,231	
Other creditors including taxation and social security		180		194	
Amounts owed to credit institutions	10(ii)	303		303	
			4,461		4,237
Accruals and deferred income			647		501
Total capital, reserves and liabilities			**19,827**		19,097

Approved by the Council on 6 September 2023 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the six months ended 30 June 2023)

	Note	**Profit and loss account £m**	**Translation reserve £m**	**Revaluation reserve £m**	**Syndicate loans £m**	**Total equity £m**
At 1 January 2023		2,729	25	15	514	3,283
Profit for the period		141	–	–	–	141
Other comprehensive income/(expense) for the period		11	(32)	–	–	(21)
Interest paid on syndicate loans	9	(10)	–	–	–	(10)
At 30 June 2023		**2,871**	**(7)**	**15**	**514**	**3,393**

	Note	Profit and loss account £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2022		2,534	(5)	15	514	3,058
Profit for the period		141	–	–	–	141
Other comprehensive income for the period		84	22	–	–	106
Interest paid on syndicate loans	9	(10)	–	–	–	(10)
At 30 June 2022		2,749	17	15	514	3,295

Group Statement of Cash Flows

(For the six months ended 30 June 2023)

	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Net cash from operating activities	11	124	194
Tax paid		(21)	(6)
Net cash inflow from operating activities		**103**	188
Cash flows from investing activities			
Purchase of intangible assets		–	(3)
Purchase of equity and debt instruments		(1,810)	(1,952)
Sale of equity and debt instruments		1,523	1,801
Increase in short-term deposits		(31)	(76)
Net sale of derivatives		9	27
Investment income received		47	20
Net cash outflow from investing activities		**(262)**	(183)
Cash flows from financing activities			
Interest paid on senior debt		(4)	(5)
Interest paid on subordinated notes		(15)	(14)
Interest paid on syndicate loans	9	(10)	(10)
Increase in borrowings for statutory insurance deposits		119	36
Net cash inflow from financing activities		**90**	7
Net (decrease)/increase in cash and cash equivalents		**(69)**	12
Cash and cash equivalents at 1 January		1,167	1,183
Foreign exchange differences on cash and cash equivalents		(36)	23
Cash and cash equivalents at 30 June		**1,062**	1,218

Notes to the Group Interim Financial Statements

(For the six months ended 30 June 2023)

1. Basis of preparation

General

In 1871, by Lloyd's Act 1871, the then existing association of underwriters was incorporated in the United Kingdom as the Society and Corporation of Lloyd's (the 'Society'). Its activities are accordingly governed by statute and, since 1982, have been managed by the Council of Lloyd's (the 'Council') pursuant to Lloyd's Act 1982. Its principal place of business is at One Lime Street, London, EC3M 7HA.

The Society's main corporate purposes are to facilitate the conduct of insurance business by members of Lloyd's, the advancement and protection of their interests in this context and to manage the Society's insurance undertakings. The Society's revenue consists of members' subscriptions, various market charges and Central Fund contributions. The Society's wholly owned subsidiaries, Lloyd's Insurance Company S.A. ('Lloyd's Europe') and Lloyd's Insurance Company (China) Limited ('Lloyd's China') are the principal insurance businesses of the Society. The principal activities of Lloyd's Europe and Lloyd's China are to provide reinsurance of non-life business and direct non-life insurance in the European and Chinese insurance markets, respectively. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business by means of 100% retrocession agreements.

The Society is regulated by the Prudential Regulatory Authority and the Financial Conduct Authority. Lloyd's Europe and Lloyd's China are also regulated by their respective country regulators.

Statement of compliance

The Group interim condensed consolidated financial statements (the 'Group interim financial statements') have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Ireland', Financial Reporting Standard 103 'Insurance Contracts' and Financial Reporting Standard 104 'Interim Financial Reporting' (collectively 'UK GAAP').

Basis of preparation

The Group interim financial statements comprise the financial statements of the Society and its subsidiaries, the Lloyd's Central Fund and the Group's interest in associates and joint ventures as at each reporting date. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Society obtains control, and continue to be consolidated until the date that such control ceases. All intra-Group balances and transactions are eliminated in full.

The Group interim financial statements are prepared on a going concern basis under the historic cost convention, except for certain assets and liabilities at fair value, as required or permitted under FRS 102 and FRS 103.

The Group interim financial statements are presented in GBP (£) which is the Society's functional and presentation currency, and all values are rounded to the nearest million (£m).

The accounting policies applied in the preparation of these interim consolidated financial statements are substantially consistent with those adopted in the 2022 Annual Report.

2. Application of new and revised Financial Reporting Standards

There are no new standards, amendments to standards or interpretations which have become effective in the year beginning 1 January 2023 that have had a material impact on the Group's interim financial statements.

3. Segmental analysis

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

The Society's primary business segments are as follows:

(i) 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 subsidiaries (primarily Lloyd's Europe and Lloyd's China) are included within this business segment; and

(ii) 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 Reinsurance Limited.

The result for the period of the Society's operating segments (the Central Fund and Corporation) are presented in the interim financial review on page 22. Analysis of the segment assets and liabilities is included on page 33.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

3. Segmental analysis continued

Segment assets and liabilities	Note	30 June 2023 Corporation of Lloyd's £m	30 June 2023 Lloyd's Central Fund £m	30 June 2023 Society total £m	31 December 2022 Corporation of Lloyd's £m	31 December 2022 Lloyd's Central Fund £m	31 December 2022 Society total £m
Financial investments	8	1,797	2,943	4,740	1,592	2,778	4,370
Cash at bank and in hand		727	335	1,062	784	383	1,167
Deferred tax asset		3	–	3	12	–	12
Tax receivable		2	–	2	1	9	10
Reinsurers' share of technical provisions		9,455	–	9,455	9,248	–	9,248
Debtors arising out of direct insurance operations		2,378	–	2,378	2,086	–	2,086
Debtors arising out of reinsurance operations		1,464	–	1,464	1,491	–	1,491
Other assets		148	575	723	131	582	713
Total assets		**15,974**	**3,853**	**19,827**	15,345	3,752	19,097
Technical provisions		9,455	–	9,455	9,248	–	9,248
Tax provisions		9	1	10	2	–	2
Deposits received from reinsurers		1,193	–	1,193	1,161	–	1,161
Creditors arising out of direct insurance operations		561	–	561	509	–	509
Creditors arising out of reinsurance operations		3,417	–	3,417	3,231	–	3,231
Subordinated debt and amounts owing to credit institutions	10	303	604	907	303	603	906
Other liabilities		819	72	891	691	66	757
Total capital and reserves		217	3,176	3,393	200	3,083	3,283
Total capital, reserves and liabilities		**15,974**	**3,853**	**19,827**	15,345	3,752	19,097

Gross written premium by geographic segment

The table below analyses insurance premiums by geographical segment where contracts were concluded:

	Six months ended 30 June 2023 £m			Six months ended 30 June 2022 £m		
	Europe	**China**	**Total**	Europe	China	Total
Gross written premiums	1,989	37	2,026	1,751	38	1,789
Outward reinsurance premiums	(1,989)	(37)	(2,026)	(1,751)	(38)	(1,789)
Net written premiums	–	–	–	–	–	–

4. Net operating income

The following items have been (charged)/credited in arriving at the balance on the technical account for general business:

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Acquisition costs	(410)	(337)
Change in deferred acquisition costs	47	66
Administrative expenses	(30)	(35)
Reinsurance commissions and profit participation	409	306
Net operating income	**16**	–

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

5. Total investment return

Investment income	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Income from financial investments held at fair value through profit or loss	21	4
Income from financial investments held at amortised cost	30	19
Net realised gains on derivative contracts	9	22
Other net realised losses on investments held at fair value through profit or loss and amortised cost	(4)	(1)
Total investment income	**56**	44
Net unrealised gains on derivative contracts	2	–
Other net unrealised gains/(losses) on financial investments at fair value through profit or loss	55	(191)
Total net unrealised gains/(losses) on investments	**57**	(191)
Investment expenses and charges	(1)	(1)
Total investment return	**112**	(148)

6. Taxation

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 30 June 2023 is 24%, compared to 19% for the six months ended 30 June 2022. An increase from the 19% UK corporation rate to 25% was announced in the 2021 budget and effective from 1 April 2023; this was substantively enacted on 24 May 2021.

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

The deferred tax balances have been calculated using the substantively enacted tax rate.

7. Pension schemes

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

Net surplus from defined benefit pension schemes

	30 June 2023 £m	31 December 2022 £m
Lloyd's Pension Scheme	70	57
Overseas pension schemes	(3)	(3)
Net surplus from pension schemes	**67**	54

The Lloyd's Pension Scheme

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

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

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

7. Pension schemes continued

On an FRS 102 Section 28 'Employee Benefits' valuation basis, the pension scheme asset at 30 June 2023 was £70m (FY 2022: £57m) before the allowance of deferred tax. An actuarial pre-tax gain of £12m has been recognised in the six months ended 30 June 2023 (HY 2022: £108m). The value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. The Society has recognised the Scheme surplus as a defined benefit plan asset as the Scheme Trust Deed and Rules give the Society the right to a refund of surplus in certain circumstances, and as such the asset is deemed recoverable.

Information about the risks of the Scheme to the Society

The ultimate cost of the Scheme to the Society will depend upon actual future events rather than the assumptions made. Many of the assumptions made may not be borne out in practice and, as such, the cost of the Scheme may be higher or lower than disclosed. In general, the risk to the Society is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Society is higher than expected. This could result in a deficit disclosed and therefore higher recovery contributions required from the Society. This may also affect the Society's ability to grant discretionary benefits or other enhancements to members.

The key assumptions that may not be borne out in practice are unchanged from those described in the 2022 Lloyd's Annual Report. A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond assets.

Principal actuarial assumptions in respect of FRS 102 Section 28

The most significant change compared to the assumptions in respect of IAS 19 as outlined in the 2022 Lloyd's Annual Report is the discount rate, which has increased to 5.4% (FY 2022: 5.0%). This is the main driver of the £27m reduction in the actuarial value of scheme liabilities from financial assumption changes. The discount rate assumption is determined with reference to the yield on corporate bonds at the valuation date, which has increased since the previous valuation. There has been no change in the methodology used to derive the discount rate compared to the valuation at 31 December 2022.

Other changes in assumptions compared to the 31 December 2022 valuation do not have a material impact on the net pension asset balance at 30 June 2023.

Total market value of assets and actuarial value of Scheme liabilities

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

	30 June 2023 £m	31 December 2022 £m
Actuarial value of Scheme liabilities at 1 January	649	1,036
Current service costs	1	1
Interest cost on Pension Scheme liabilities	16	19
Benefits paid and administrative expenses	(17)	(30)
Experience losses arising in scheme liabilities	3	16
Change in assumptions underlying the present value of the scheme liabilities		
Demographic assumption change	–	(11)
Financial assumption change	(30)	(382)
Actuarial value of Scheme liabilities at 30 June/31 December	**622**	649

Changes in the fair value of plan assets were:

	30 June 2023 £m	31 December 2022 £m
Fair value of Scheme assets at 1 January	706	934
Interest income on Pension Scheme assets	17	18
Employer contributions	–	11
Benefits paid	(16)	(30)
Return on plan assets (excluding interest income)	(15)	(227)
Fair value of Scheme assets at 30 June/31 December	**692**	706

The Trustees are in the process of completing and finalising their formal actuarial valuation of the Scheme as at 30 June 2022, using the projected unit credit method. The report is awaited, and may indicate changes to the actuarial surplus/(deficit) and to the contributions required to meet any deficit.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

7. Pension schemes continued

Sensitivity of pension obligation to changes in assumptions

A 1% per annum increase in the discount rate to be adopted as at 30 June 2023 would result in a reduction to the balance sheet liabilities at that date of around 11%, or approximately £69m. A corresponding 1% per annum decrease would increase liabilities at that date by around 14%, or approximately £85m.

A 1% per annum increase in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2023, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the balance sheet liabilities at that date of around 5%, or approximately £31m. A corresponding 1% per annum decrease would reduce liabilities at that date by around 5%, or approximately £31m.

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 2023 would be around 2% higher, or approximately £12m. Similarly, if members aged 60 were instead expected to live for one year less, then the liability would be around 2% lower, or approximately £11m.

Defined contribution pension schemes

Contributions payable by the Group into defined benefit contribution schemes during the period were £5m (HY 2022: £5m).

8. Financial investments

	Note	**30 June 2023 £m Carrying value**	31 December 2022 £m Carrying value
Financial investments at amortised cost			
Statutory insurance deposits	8(a)	1,024	934
Deposits with credit institutions		744	597
Loans secured by mortgages[1]		23	24
Unsecured loans[2]		8	8
Total financial investments at amortised cost		**1,799**	1,563
Financial assets at fair value through profit or loss			
Financial investments at fair value through profit or loss	8(b)	2,918	2,787
Derivative financial assets	8(c)	23	20
Total financial assets at fair value through profit or loss		**2,941**	2,807
Total financial investments		**4,740**	4,370

(a) Financial investments at amortised cost

	30 June 2023			31 December 2022		
Statutory insurance deposits	**Securities £m**	**Deposits £m**	**Total £m**	Securities £m	Deposits £m	Total £m
At 1 January	163	771	934	148	662	810
Additions at cost	12	845	857	34	1,333	1,367
Disposal proceeds	(5)	(732)	(737)	(33)	(1,305)	(1,338)
(Loss)/profit on the sale and revaluation of investments	(2)	(28)	(30)	14	81	95
At 30 June/31 December	**168**	**856**	**1,024**	163	771	934

1. Loans made from the Central Fund to hardship members are related to the valuation of hardship, Limited Financial Assistance Agreement and legal assets. Gains and losses are included in the Group profit and loss account in the period they arise.
2. In 2022, an unsecured loan was provided to an associate of the Group, repayable in 2026.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

8. Financial investments continued

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

	30 June 2023			31 December 2022		
	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Total £m	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Total £m
At 1 January	490	2,297	2,787	504	2,186	2,690
Additions at cost	135	818	953	510	2,032	2,542
Disposal proceeds	(95)	(691)	(786)	(512)	(1,814)	(2,326)
Loss on the sale and revaluation of investments	(12)	(24)	(36)	(12)	(107)	(119)
Fair value at 30 June/31 December	**518**	**2,400**	**2,918**	490	2,297	2,787
Analysis of securities[1]:						
Debt securities and other fixed-income securities:						
Government	108	1,236	1,344	105	1,229	1,334
Corporate securities	259	506	765	252	473	725
Shares and other variable-yield securities and units in unit trusts:						
Global equities	–	350	350	1	315	316
Participation in investment pools:						
Private assets	–	24	24	–	–	–
Hedge funds	–	17	17	–	18	18
Multi-asset	–	130	130	–	131	131
Emerging markets	58	67	125	52	64	116
Developed markets	93	–	93	80	–	80
Other loans[2]	–	70	70	–	67	67
Fair value at 30 June/31 December	**518**	**2,400**	**2,918**	490	2,297	2,787

1. All securities are listed, except for hedge funds and other loans.
2. Other loans comprise a loan to Constellation IC Limited of £80m in 2021 towards arrangements made for the protection for Lloyd's Central Fund, in situations where the Central Fund make payments to cover members' liabilities. The loan is classified and measured at fair value through profit and loss in accordance with the Society's accounting policy for financial assets under IFRS 9 Financial Instruments. Interest income is accrued on the loan.

(c) Fair value hierarchy

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

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

Level 2 – Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (ie. as prices) or indirectly (ie. 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 (ie. 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 tradable net asset values are published.

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. While such valuations are sensitive to estimates, changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

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.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

8. Financial investments continued

(c) Fair value hierarchy continued

	30 June 2023			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	1,344	765	–	2,109
Shares and other variable yield securities and units in unit trusts	350	–	–	350
Participation in investment pools	–	365	24	389
Other loans	–	–	70	70
Total financial investments at fair value through profit or loss	**1,694**	**1,130**	**94**	**2,918**
Derivative financial instruments				
Currency conversion service	–	3	–	3
Other forward foreign exchange contracts	–	14	–	14
Interest rate swaps	–	6	–	6
Total derivative financial instruments	**–**	**23**	**–**	**23**
Total financial assets at fair value through profit or loss	**1,694**	**1,153**	**94**	**2,941**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	(3)	–	(3)
Other forward foreign exchange contracts	–	(9)	–	(9)
Interest rate swaps	–	(8)	–	(8)
Total financial liabilities at fair value through profit or loss	**–**	**(20)**	**–**	**(20)**

	31 December 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	1,335	725	–	2,060
Shares and other variable yield securities and units in unit trusts	315	–	–	315
Participation in investment pools	–	345	–	345
Other loans	–	–	67	67
Total financial investments at fair value through profit or loss	1,650	1,070	67	2,787
Derivative financial instruments				
Currency conversion service	–	2	–	2
Other forward foreign exchange contracts	–	12	–	12
Interest rate swaps	–	6	–	6
Total derivative financial instruments	–	20	–	20
Total financial assets at fair value through profit or loss	1,650	1,090	67	2,807
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	(2)	–	(2)
Other forward foreign exchange contracts	–	(10)	–	(10)
Interest rate swaps	–	(8)	–	(8)
Total financial liabilities at fair value through profit or loss	–	(20)	–	(20)

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

8. Financial investments continued

(c) Fair value hierarchy continued

Derivative financial instruments

The Society enters into forward currency contracts to manage exposures to fluctuation of exchange rates and to provide a currency conversion service to the Lloyd's market. The Society's derivative financial instruments are categorised as fair value hierarchy Level 2.

Forward currency contracts are settled gross; notional amounts are a close proxy for gross cash flow amounts. The fair value and notional amounts of derivative instruments held, all of which mature within one year, are analysed as follows:

	Assets		**Liabilities**	
As at 30 June 2023	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**
Currency conversion service	3	206	(3)	(205)
Other forward foreign exchange contracts	14	624	(9)	(619)
Interest rate swaps	6	420	(8)	(422)
Total	**23**	**1,250**	**(20)**	**(1,246)**

	Assets		Liabilities	
As at 31 December 2022	Fair value £m	Notional £m	Fair value £m	Notional £m
Currency conversion service	2	221	(2)	(220)
Other forward foreign exchange contracts	12	414	(10)	(760)
Interest rate swaps	6	290	(8)	(292)
Total	20	925	(20)	(1,272)

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in the fair value of Level 3 investments for the six months ended 30 June 2023 and year ended 31 December 2022:

	30 June 2023 £m	31 December 2022 £m
As at 1 January	67	77
Addition	24	–
Loss on translation	(1)	–
Gains/(loss) recognised in the profit and loss account	4	(10)
As at 30 June/ 31 December	**94**	67

In the period, the Society has invested £24m into the Lloyd's Private Impact Fund (LPIF) (see page 15 for details of the accounting policy), which is reported as an addition to 'Participation in investment pools' and comprises Level 3 assets in the fair value hierarchy.

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.

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, changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

9. Syndicate loans

	30 June 2023 £m	31 December 2022 £m
2020 Syndicate loan (November)	285	285
2020 Syndicate loan (June)	119	119
2019 Syndicate loan	110	110
Principal loan balance	**514**	514

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holders' right to receive payment is confirmed. At 30 June 2023 the cumulative interest to date, not yet confirmed, totals £7m (FY 2022: £8m).

Syndicate loans are accounted for as an equity instrument in the Society's financial statements and as such any interest paid to loan holders is recorded as a reduction in equity. An interest payment of £10m (HY 2022: £10m) has been made during the period.

10. Subordinated debt and amounts owing to credit institutions

i) Subordinated debt

	30 June 2023 £m	31 December 2022 £m
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	300	300
4.750% subordinated notes of £306m maturing 30 October 2024 (Sterling 2014 Notes)	306	306
Total subordinated notes issued	**606**	606
Less issue costs to be charged in future years	(2)	(2)
Less discount on issue to be unwound in future years	–	(1)
Total	**604**	603

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

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

The Sterling 2017 Notes issued on 7 February 2017 mature on 7 February 2047 and bear interest at a rate of 4.875% per annum, until (but excluding) 2 February 2027, payable annually in arrears on 7 February in each year, and thereafter at a floating rate of interest calculated using a compounded daily SONIA (Sterling Overnight Index Average) interest rate plus a credit adjustment spread and margin, payable quarterly in arrears.

Notes to the Group Interim Financial Statements continued

(For the six months ended 30 June 2023)

10. Subordinated debt and amounts owing to credit institutions continued

ii) Amounts owed to credit institutions

	30 June 2023 £m	31 December 2022 £m
2.48% senior debt of £60m maturing January 2030 (Sterling 2020)	60	60
2.48% senior debt of £40m maturing January 2031 (Sterling 2020)	40	40
2.61% senior debt of £70m maturing January 2035 (Sterling 2020)	70	70
2.81% senior debt of £130m maturing January 2045 (Sterling 2020)	130	130
Less issue costs and discount on issue to be charged/unwound in future years	(1)	(1)
Total cost	**299**	299
Accrued interest	4	4
Amortised cost (carrying value)	**303**	303

11. Cash generated from operations

	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
Profit before tax		186	172
Adjustments for:			
Net investment return	5	(112)	148
Share of profits of associates and joint ventures		(3)	(5)
Amortisation of intangible assets		8	5
Depreciation of tangible fixed assets		–	1
Net interest on defined benefit pension schemes		(1)	2
Interest expense on financial liabilities at amortised cost		19	23
Increase in debtors, prepayments and accrued income		(1,069)	(2,195)
Increase in creditors, accruals and deferred income		980	2,234
Loan recoveries		–	2
Increase/(decrease) in provisions		2	(6)
Loss/(profit) on foreign exchange		114	(199)
Other[1]		–	12
Net cash inflow from operating activities		**124**	194

[1] Interest expense on financial liabilities at amortised cost, previously reported as part of 'Other', has been reported as a separate line item in the current period.

12. Non-technical income and operating expenses

Non-technical income comprises income from members such as subscriptions, Central Fund contributions and overseas operating charges. Non-technical operating expenses comprises employment expenses, premises, legal and professional, systems and communications, depreciation and amortisation.

13. Related party transactions

There were no changes in the related party transactions described in the 2022 Annual Report that have a material effect of the financial position or performance of the Group in the six-month period to 30 June 2023.

14. Subsequent events

There have been no events that have occurred since the reporting date which require adjustment to or disclosure in these Group interim financial statements.

Independent review report to the Council of Lloyd's Report on the Society of Lloyd's condensed consolidated interim financial statements

Our conclusion

We have reviewed the Society of Lloyd's condensed consolidated interim financial statements (the "Group interim financial statements") in the Society Report of the Society of Lloyd's for the 6 month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the Group interim financial statements are not prepared, in all material respects, in accordance with FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council.

The Group interim financial statements comprise:

- the Group Balance Sheet as at 30 June 2023;
- the Group Profit and Loss Account for the period then ended;
- the Group Statement of Comprehensive Income for the period then ended;
- the Group Statement of Changes in Equity for the period then ended;
- the Group Statement of Cash Flows for the period then ended; and
- the explanatory notes to the Group interim financial statements.

The Group interim financial statements included in the Society Report of the Society of Lloyd's have been prepared in accordance with FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council.

Basis for conclusion

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

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

We have read the other information contained in the Society Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Group interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the Council of Lloyd's have inappropriately adopted the going concern basis of accounting or that the Council of Lloyd's have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the Group interim financial statements and the review

Our responsibilities and those of the Council of Lloyd's

The Society Report, including the Group interim financial statements, is the responsibility of, and has been approved by, the Council of Lloyd's. In preparing the Society Report, including the Group interim financial statements, the Council of Lloyd's are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council of Lloyd's either intend to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Our responsibility is to express a conclusion on the Group interim financial statements in the Society Report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the Council of Lloyd's as a body, for management purposes, in connection with its commitment 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.

PricewaterhouseCoopers LLP
Chartered Accountants
London

6 September 2023

Alternative Performance Measures

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). These measures are not defined under UK GAAP.

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.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses 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.
Attritional loss ratio	Market Results	Attritional loss ratio is a measure of residual insurance claims as a percentage of earned premiums net of reinsurance. Attritional insurance claims are calculated as total claims less major losses and movements in prior year claims reserves.	Attritional loss ratio is used to measure the profitability of general underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Prior year release ratio	Market Results	Prior year release ratio is a measure of assessing prior year movements in claims reserves. This is calculated as a percentage of earned premiums net of reinsurance.	Prior year release ratio is used to determine the adequacy of reserves across the Lloyd's market and the benefit of reserve margin to be considered within the combined ratio. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Major claims ratio	Market Results	Major claims ratio is a measure of significant loss events which have impacted the profitability of underwriting activity. This is calculated as the sum of major claims in the market as a percentage of earned premiums net of reinsurance.	Major claims ratio is used to measure the impact of significant loss events against the underwriting performance of the market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. When expressed as a ratio it is calculated as 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.
Solvency coverage ratio	Market Results and Society Report	Under the Solvency II regime Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the Society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.