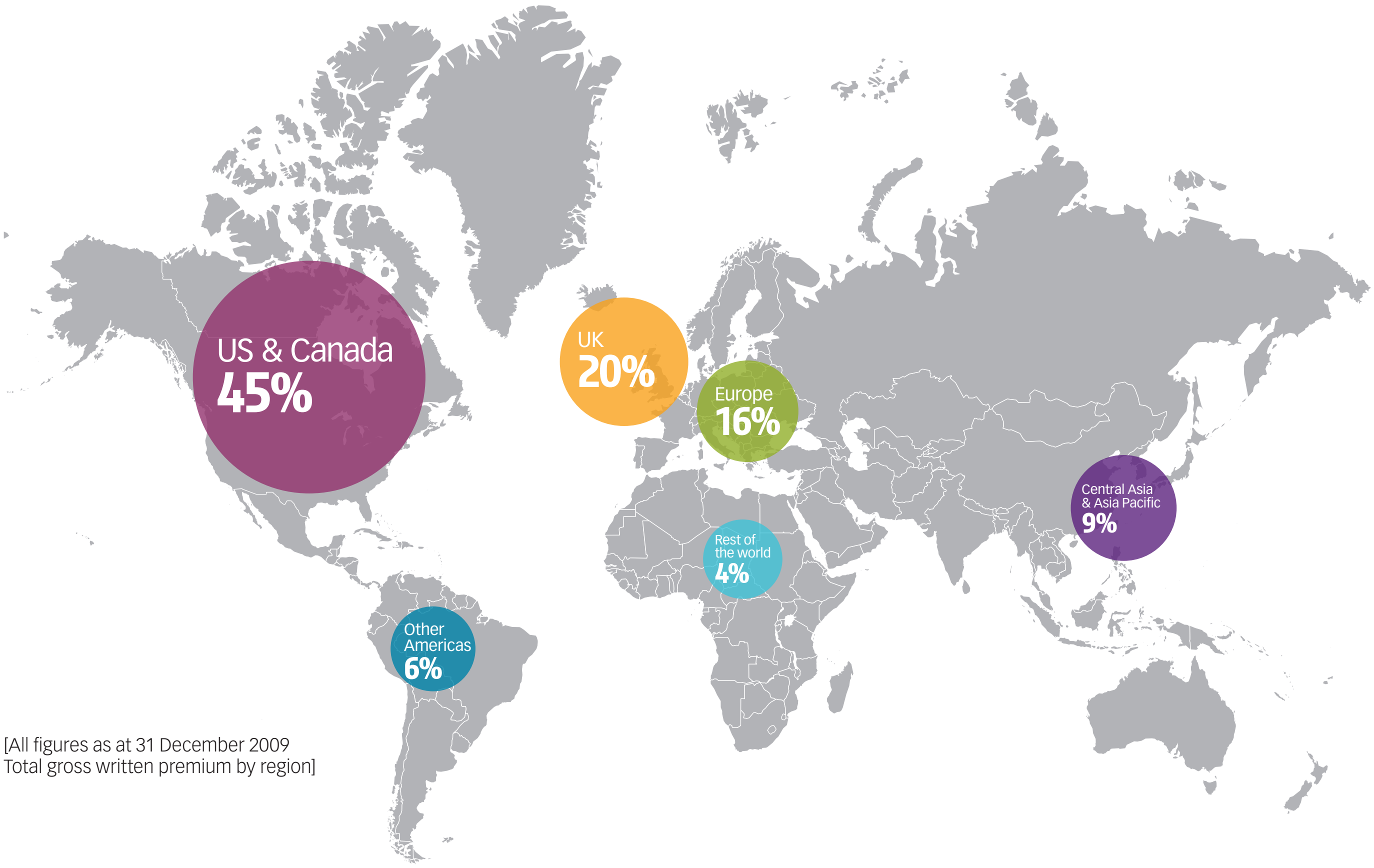
LLOYD'S

LLOYD'S INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2010

LLOYD'S ACCEPTS BUSINESS FROM OVER 200 COUNTRIES AND TERRITORIES WORLDWIDE.

Our 79 licences, supported by a network of local offices, ensure access to insurance markets large and small.



[All figures as at 31 December 2009
Total gross written premium by region]

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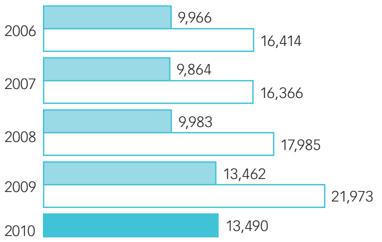
HIGHLIGHTS

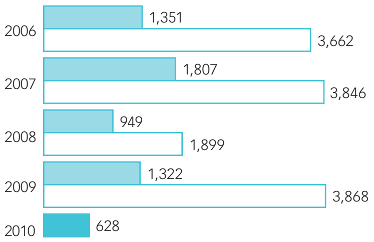
- Lloyd's achieved a profit before tax of £628m (June 2009: £1,322m) and a combined ratio of 98.7% (June 2009: 91.6%)
- Capital, reserves and subordinated loan notes stand at £18,539m (June 2009: £16,949m)
- Lloyd's financial strength ratings were affirmed by A.M. Best 'A' (Excellent), Standard & Poor's 'A+' (Strong) and Fitch Ratings 'A+' (Strong)

GROSS WRITTEN PREMIUM
£m



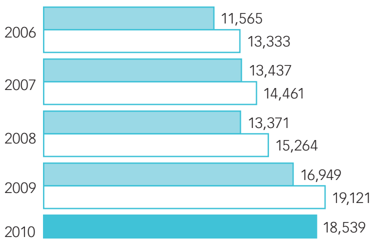
£13,490m (June 2009: £13,462m)

PROFIT BEFORE TAX
£m



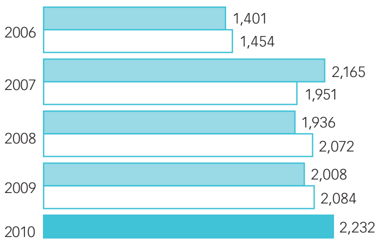
£628m (June 2009: £1,322m)

CAPITAL, RESERVES AND SUBORDINATED DEBT AND SECURITIES
£m



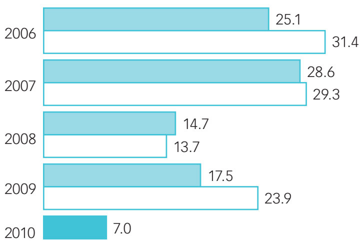
£18,539m (June 2009: £16,949m)

CENTRAL ASSETS
£m



£2,232m (June 2009: £2,008m)

RETURN ON CAPITAL (ANNUALISED)
%



7.0% (June 2009: 17.5%)

COMBINED RATIO
%

98.7% (June 2009: 91.6%)

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Six months ago, when we announced record profits for 2009, we said that 2010 would be challenging. This has proved to be true. In the first half of this year, there have been more catastrophes across the world, including notably the earthquake in Chile and the Deepwater oil rig explosion, than in any year since we began interim reporting. Globally, the insurance market has experienced one of the largest levels of catastrophe losses in the first half of a year ever, so it is no surprise that this has been a testing six months for the market.

The interim figures show a profit before tax of £628m (June 2009: £1,322m) and a combined ratio of 98.7% (June 2009: 91.6%). Whilst this represents a fall in profits compared with previous years, we believe that it represents a satisfactory result, particularly as low interest rates have affected insurers' ability to make significant returns from their investment portfolios.

Our financial position remains strong, with a small increase in central assets during the first six months, and we continue to receive A+ credit ratings from S&P and Fitch and A from A.M. Best. More information regarding the progress on our strategic objectives is provided on page 13.

All specialist insurers have been affected by the rise in the number of catastrophes in the first half of this year and we must accept that it is part of the normal insurance cycle that some years will attract more claims than others. Our purpose, after all, is to support businesses when disaster strikes, and to enable them to rebuild. And, as usual, our interim report comes with the caveat that, historically, the last six months of the year attract a greater number of catastrophe losses. Indeed, forecasters predict that 2010 will experience a more active than average hurricane season.

However, our focus on underwriting discipline and a prudent approach to investment means we remain a stable and secure insurer to individuals and businesses.

PETER LEVENE
Chairman

RICHARD WARD
Chief Executive Officer

27 September 2010

MARKET COMMENTARY

The underwriting result for the first six months of 2010 is a profit of £107m (June 2009: £678m). This reflects the much higher level of catastrophe claims experienced in the first half of 2010 compared to other years.

Gross written premiums for the six months to June 2010 were £13,490m (June 2009: £13,462m), an increase of 0.2%. The movement in the US dollar in 2010 has had little impact on the reported level of premium written, with income translated using average rates during the period (June 2010: US$1.53, June 2009: US$1.50). Total premiums for established syndicates has fallen by comparison to the same period in 2009, offset by an increase in premiums written by syndicates starting in 2008 and post as they seek to establish their books of business.

The Lloyd's market recorded an accident year combined ratio for the six months to June 2010 of 103.3% (June 2009: 95.5%). This was reduced by a prior year reserve release of 4.6% (June 2009: 3.9%) to give an overall combined ratio of 98.7% (June 2009: 91.6%).

The 2009 ratio was adversely affected by foreign exchange movements, principally related to the accounting treatment of non-monetary items. Excluding foreign exchange movements on non-monetary items, the combined ratio for June 2010 was 99.1% (June 2009: 86.6%).

The increase in the combined ratio reflects that the insurance industry experienced a high frequency of large risk and catastrophic claims in the first half of 2010 (twice the last ten year average: Munich Re). Lloyd's is materially exposed to a number of these events, most notably; the earthquake in Chile (27/02/2010) which impacted several property lines, and the 'Deepwater Horizon' disaster in the Gulf of Mexico (20/04/2010).

Total major losses added 17.1% (June 2009: 3.2%) to the accident year ratio. Lloyd's estimates of the ultimate claims arising from these events (Chile $1.4bn, Deepwater Horizon $300m to $600m) remain unchanged from our announcement in May.

While overall prior year performance remains within expectations, there has been adverse development in certain lines. UK Motor, in particular, has seen significant claims deterioration in the more recent accident years due to the continued rise in third party claims in respect of both bodily injury and credit hire. This has resulted in material reserve strengthening by the specialist motor syndicates.

Claims arising from US sub-prime and the collapse of the global banking sector continue to increase but still remain manageable at market level. Underlying loss activity is increasing partly as a result of the economic downturn but so far there has been no marked acceleration in claims trends. Indeed, loss ratios in the casualty sector have remained relatively stable, which is encouraging.

Notwithstanding the above, against a background of continued economic uncertainty and low investment returns, underwriting conditions have become more challenging this year with rates either flat or falling in most classes. While certain lines have seen some rate improvement as a result of the large losses this year, none of the events to date in 2010 can be described as 'market-changing'.

With insurance industry capital now at or near peak levels and the prospect of continued uncertainty in the global economy, pricing levels and combined ratios are likely to come under increasing pressure without a major catalyst for change (eg a significant catastrophic event or sharp deterioration in loss ratio).

INVESTMENT REVIEW

Investments at Lloyd's fall in to three areas: insurance premiums invested by the syndicates, member's capital or funds at Lloyd's and Lloyd's central assets (principally the Central Fund, which holds the mutual assets which underpin the operation of the market). Investment responsibility for these falls respectively to managing agents, members and the Society. Investment dispositions can vary considerably, but overall these assets continue to be invested conservatively, typically in cash and fixed interest investments of high credit quality with limited exposure to equities and other volatile asset classes.

Optimism about the prospects for global economic growth, evident in rallying equity markets during the first quarter of 2010, has diminished progressively in recent months, culminating in fears of a return to recession in many economies. Against this background, equities saw renewed weakness (UK equities fell more than 9% in the first half of 2010) and corporate bonds have given up some of the significant gains achieved since the nadir of the credit crisis. The debt holders of some sovereign issuers have also experienced mark to market losses as the ability of certain countries to support growing debt burdens comes under scrutiny. However, securities issued by sovereigns who have escaped these concerns have seen capital gains in the period as their yields fell, reflecting the growing consensus that interest rates will remain very low for an extended period.

Investments at Lloyd's produced a return of £597m or 1.3% in the six months to June 2010 (June 2009: £708m, 1.6%). Although lower than in the same period last year, this return is higher than might have been expected given the low level of prevailing yields globally and has benefited from the capital gains generated on the highest quality fixed interest assets. The period since the end of the second quarter has seen further gains in the value of such instruments as their yields continue to fall.

STATEMENT OF COUNCIL'S RESPONSIBILITIES AND LLOYD'S INTERIM REPORT

STATEMENT OF COUNCIL'S RESPONSIBILITIES

The Interim Pro Forma Financial Statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

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

INTERIM PRO FORMA FINANCIAL STATEMENTS (PFFS)

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

The PFFS are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the interim results of the syndicates as reported in the syndicate interim returns, members' funds at Lloyd's (FAL) and the Society of Lloyd's group interim financial statements (as below).

The syndicate interim returns provide the results for all syndicates which transacted business during the six months to 30 June 2010 and include the syndicate level assets, which represent the first link in the Lloyd's chain of security.

The capital provided by members is held centrally as FAL, not at syndicate level, and is not, therefore, reported in the syndicate interim returns. FAL represent the second link in the chain of security. The non-technical account of the PFFS includes a notional return on FAL.

The Society of Lloyd's group interim financial statements report the central resources of the Society, which form the third link in Lloyd's chain of security.

The profit and loss account in the PFFS aggregates the syndicate results, the notional investment return on members' capital and the results of the Society. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL, and the central resources of the Society. Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in the Lloyd's chain of security. The PFFS may, therefore, be used as a reasonable presentation of the pre-tax results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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

PRO FORMA PROFIT AND LOSS ACCOUNT
for the six months ended 30 June 2010

	Six months ended 30 June 2010		Six months ended 30 June 2009		Full year 2009	
	£m	**£m**	£m	£m	£m	£m
Technical account						
Gross written premiums						
– Continuing operations		**13,496**		13,460		21,958
– Discontinued operations		**(6)**		2		15
		13,490		13,462		21,973
Outward reinsurance premiums		**(3,691)**		(3,478)		(4,755)
Premiums written, net of reinsurance		**9,799**		9,984		17,218
Change in the gross provision for unearned premiums	**(2,796)**		(3,388)		(807)	
Change in the provision for unearned premiums, reinsurers' share	**1,282**		1,490		314	
		(1,514)		(1,898)		(493)
Earned premiums, net of reinsurance		**8,285**		8,086		16,725
Allocated investment return transferred from the non-technical account		**517**		639		1,344
		8,802		8,725		18,069
Claims paid						
Gross amount	**5,856**		5,491		11,544	
Reinsurers' share	**(1,458)**		(1,126)		(2,469)	
		4,398		4,365		9,075
Change in provision for claims						
Gross amount	**1,335**		(126)		(1,280)	
Reinsurers' share	**(330)**		222		829	
		1,005		96		(451)
Claims incurred, net of reinsurance		**5,403**		4,461		8,624
Acquisition costs	**2,751**		2,742		4,633	
Change in deferred acquisition costs	**(511)**		(605)		(225)	
Administrative expenses	**707**		498		1,304	
Loss/(profit) on exchange	**(172)**		312		69	
Net operating expenses		**2,775**		2,947		5,781
Balance on the technical account for general business		**624**		1,317		3,664
Attributable to:						
– Continuing operations		**503**		1,252		3,463
– Discontinued operations		**121**		65		201
Total		**624**		1,317		3,664
Non-technical account						
Balance on the technical account for general business		**624**		1,317		3,664
Investment return on syndicate assets	**533**		633		1,387	
Notional investment return on funds at Lloyd's	**17**		54		266	
Investment return on Society assets	**47**		(15)		80	
Surplus on subordinated debt repurchase	**–**		36		36	
	597		708		1,769	
Allocated investment return transferred to the technical account	**(517)**		(639)		(1,344)	
		80		69		425
Other income		**32**		32		64
Other expenses		**(108)**		(96)		(285)
Profit on ordinary activities before tax		**628**		1,322		3,868
Statement of the total recognised gains and losses						
Result for the financial period		**628**		1,322		3,868
Other recognised gains and losses		**79**		(127)		(34)
Total recognised gains and losses		**707**		1,195		3,834

PRO FORMA BALANCE SHEET

as at 30 June 2010

	Note	Six months ended 30 June 2010 £m	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m	Six months ended 30 June 2009 £m	Full year 2009 £m	Full year 2009 £m
Financial investments							
Shares and other variable yield securities		**3,778**		3,475		3,829	
Debt securities and other fixed income securities		**27,386**		23,227		26,898	
Participation in investment pools		**1,130**		1,226		1,223	
Loans and deposits with credit institutions		**5,299**		6,309		5,189	
Other investments		**33**		30		33	
Total investments			**37,626**		34,267		37,172
Deposits with ceding undertakings			**16**		8		10
Reinsurers' share of technical provisions							
Provision for unearned premiums		**2,801**		2,521		1,447	
Claims outstanding		**9,203**		8,857		8,484	
			12,004		11,378		9,931
Debtors							
Debtors arising out of direct insurance operations		**5,986**		5,511		4,560	
Debtors arising out of reinsurance operations		**4,797**		4,455		3,577	
Other debtors		**708**		481		437	
			11,491		10,447		8,574
Other assets							
Tangible assets		**42**		30		36	
Cash at bank and in hand	9	**9,967**		9,499		9,082	
Other		**9**		8		12	
			10,018		9,537		9,130
Prepayments and accrued income							
Accrued interest and rent		**59**		86		88	
Deferred acquisition costs		**2,752**		2,533		2,180	
Other prepayments and accrued income		**256**		240		205	
			3,067		2,859		2,473
Total assets			**74,222**		68,496		67,290
Capital and reserves							
Members' funds at Lloyd's		**14,332**		13,076		13,159	
Members' balances		**1,975**		1,865		3,878	
Members' assets (held severally)		**16,307**		14,941		17,037	
Central reserves (mutual assets)		**1,291**		1,059		1,126	
			17,598		16,000		18,163
Subordinated debt			**504**		512		521
Subordinated perpetual capital securities			**437**		437		437
Capital, reserves and subordinated debt and securities			**18,539**		16,949		19,121
Technical provisions							
Provision for unearned premiums		**12,535**		11,767		9,433	
Claims outstanding		**36,954**		34,356		34,111	
			49,489		46,123		43,544
Deposits received from reinsurers			**119**		131		115
Creditors							
Creditors arising out of direct insurance operations		**971**		986		865	
Creditors arising out of reinsurance operations		**3,641**		3,317		2,526	
Other creditors including taxation		**1,082**		723		774	
			5,694		5,026		4,165
Accruals and deferred income			**381**		267		345
Total liabilities			**74,222**		68,496		67,290

PRO FORMA CASH FLOW STATEMENT

for the six months ended 30 June 2010

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m	Full year 2009 £m
Pro forma result for the period/year before tax	**628**	1,322	3,868
Depreciation	**3**	2	4
Realised and unrealised (gains)/losses and foreign exchange	**(1,244)**	2,096	723
Net sale/(purchase) of investments	**923**	(1,597)	(3,083)
Notional return on funds at Lloyd's	**(17)**	(54)	(266)
Increase/(decrease) in technical provisions	**3,894**	(1,045)	(2,159)
(Increase)/decrease in debtors	**(3,474)**	(2,111)	132
Increase/(decrease) in creditors	**1,501**	812	133
Cash generated from operations	**2,214**	(575)	(648)
Income taxes paid	**(20)**	(25)	(50)
Net cash from operating activities	**2,194**	(600)	(698)
Cash flow from financing activities			
Net profits paid to members	**(2,729)**	(1,959)	(2,186)
Net movement in funds at Lloyd's	**1,173**	2,446	2,529
Capital transferred into syndicate premium trust funds	**281**	287	146
Purchase of debt securities	**–**	(66)	(66)
Interest paid	**(34)**	(37)	(71)
Net increase/(decrease) in cash holdings	**885**	71	(346)
Cash holdings at beginning of period	**9,082**	9,428	9,428
Cash holdings at 30 June/31 December	**9,967**	9,499	9,082

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS

as at 30 June 2010

1. INTRODUCTION

Lloyd's is not an insurance company. It is a Society of members which underwrite insurance (each for their own account) as members of syndicates. The interim pro forma financial statements (PFFS) are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies.

2. BASIS OF PREPARATION

GENERAL

The PFFS include the aggregate results as reported separately by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the Society in accordance with UK GAAP. The syndicate returns include the syndicate level assets, which represent the first link in the chain of security.

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

The capital provided by members is generally held centrally as FAL and represents the second link in the chain of security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's group interim financial statements report the central resources of the Society, which forms the third link in Lloyd's chain of security (pages 12 to 28).

The profit and loss account in the PFFS aggregates the syndicate interim underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, therefore, the PFFS aggregate the results and resources of the Society and its members and reflects all the links in Lloyd's chain of security. The PFFS may, therefore, 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.

TAXATION

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

FUNDS AT LLOYD'S

FAL comprise the capital provided by members to support their underwriting, and are the equivalent of capital shown in insurance companies' accounts. The valuation of FAL has been included in the pro forma balance sheet.

FAL are available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and 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 Individual Capital Assessment (ICA) capital setting methodology.

A notional investment return on FAL has been calculated, 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 calculated on the average value of FAL during the period, based on indices yields on 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.

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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

TRANSACTIONS BETWEEN SYNDICATES AND THE SOCIETY

Transactions between the syndicates and the Society which have been reported in the syndicate returns and the Society of Lloyd's group interim financial statements have been eliminated (note 8):

(1) 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's group interim financial statements.

(2) 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 calls are reported as a profit and loss charge and balance sheet liability in the Society group interim financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and balances.

(3) Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society group interim financial statements.

THE SUBORDINATED DEBT AND SECURITIES
In accordance with the terms of the subordinated debt and securities, the capital raised is available for payment to policyholders in advance of repayment to the note holders and is included in the 'capital, reserves and subordinated debt and securities' in the pro forma balance sheet.

3. ACCOUNTING POLICIES NOTES
A. SYNDICATE RETURNS
The syndicate level information within the PFFS has been prepared in accordance with UK GAAP. These accounting policies are consistent with those adopted for the PFFS in the 2009 Annual Report. These policies, as regards underwriting transactions, are consistent with the recommendations of the Statements of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers, modified to reflect the unique structure of Lloyd's.

B. FUNDS AT LLOYD'S
Funds at Lloyd's are valued in accordance with their market value at the period end, and using period end exchange rates.

Investments are stated at current 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 overseas 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.

Members that only participate on 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 2009 Annual Report.

C. SOCIETY OF LLOYD'S
The accounting policies adopted in the Society of Lloyd's financial statements are in accordance with IFRS and are consistent with those adopted in the 2009 Annual Report. There are no material adjustments required to the Society information to present it on a basis consistent with the syndicate results in the PFFS.

4. VARIABILITY
Movements in reserves are based upon best estimates as at 30 June 2010 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.

5. DISCONTINUED OPERATIONS
Continuing/discontinued operations represent the analysis reported in the syndicate returns between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates. Where business has been reported as discontinued in 2010, the results for that business have also been reported as discontinued in the 2009 comparative figures.

6. MEMBERS' FUNDS AT LLOYD'S
The valuation of members' FAL in the balance sheet totals £14,332m (June 2009: £13,076m, December 2009: £13,159m). The notional investment return on FAL included in the non-technical profit and loss account totals £17m (June 2009: £54m, December 2009: £266m).

7. SOCIETY OF LLOYD'S
The results of the group interim financial statements of the Society included in the profit and loss account are a net profit of £143m (June 2009: £174m, December 2009: £235m) in the technical account and a net loss of £29m (June 2009: £43m, December 2009: £106m) in the non-technical account.

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS
CONTINUED

8. AGGREGATION OF RESULTS AND NET ASSETS
A reconciliation between the results, statement of total recognised gains and losses and net assets reported in the syndicate returns, members' funds at Lloyd's and the Society financial statements is set out below:

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m	Full year 2009 £m
Result per syndicate returns	**497**	1,137	3,473
Result of the Society	**191**	87	143
Central Fund claims and provisions released/(charged) in Society financial statements	**1**	11	(20)
Central Fund recoveries from insolvent members	**(113)**	–	(49)
Taxation charge in Society financial statements	**74**	33	57
Notional investment return on members' funds at Lloyd's	**17**	54	266
Society income not accrued in syndicate returns	**(39)**	–	(2)
Result on ordinary activities pre-tax	**628**	1,322	3,868

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m	Full year 2009 £m
Result for the period	**628**	1,322	3,868
Other recognised gains and losses per syndicate returns	**105**	(110)	(27)
Other recognised gains and losses per Society financial statements	**(26)**	(17)	(7)
Total recognised gains and losses	**707**	1,195	3,834

	30 June 2010 £m	30 June 2009 £m	Full year 2009 £m
Net assets per syndicate returns	**1,994**	1,794	3,859
'Equity' of the Society	**1,291**	1,059	1,126
Central Fund claims and provisions in Society group financial statements	**46**	94	46
Members' funds at Lloyd's	**14,332**	13,076	13,159
Unpaid cash calls reanalysed from debtors to members' balances	**(14)**	(13)	(15)
Society income receivable not accrued in syndicate annual accounts	**(51)**	(10)	(12)
Capital and reserves per PFFS	**17,598**	16,000	18,163

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

9. CASH AT BANK AND IN HAND
Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' funds at Lloyd's to meet policyholder claims as required totalling £7,694m (June 2009: £7,078m, December 2009: £7,315m).

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE INTERIM PRO FORMA FINANCIAL STATEMENTS

INTRODUCTION

In accordance with instructions issued to us by the Council of Lloyd's, we have reviewed the interim pro forma financial statements (the PFFS) for the six months ended 30 June 2010, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 9, which have been prepared on the basis set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with those instructions. Our review has been undertaken so that we might state to the Council those matters which we are required to state in this review report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressee of this review report, for our work, for this review report, or for the conclusions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL OF LLOYD'S AND ERNST & YOUNG LLP

The Council of Lloyd's is responsible for the preparation and approval of the PFFS. Our responsibility is to express a conclusion on this interim pro forma financial information based upon our review.

SCOPE OF REVIEW

Our review, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the PFFS. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that may be identified in an audit. Accordingly, we do not express an audit opinion.

The PFFS have been compiled in part from an aggregation of financial information extracted from syndicate returns prepared by the managing agent of each syndicate. These returns have been submitted to the Council of Lloyd's and the auditors of each syndicate have given a review opinion, as described in note 2. Those auditors' review reports are also substantially less in scope than an audit performed in accordance with International Auditing Standards and indicate that they are not aware of any material modifications that should be made to the financial information reported in the syndicate returns. We have relied absolutely on those reports by syndicate auditors. We have not audited those returns or those extractions. Our work is solely intended to enable us to make this report.

CONCLUSION

On the basis of the review, and in accordance with the instructions issued to us, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2010.

ERNST & YOUNG LLP
London

27 September 2010

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

SOCIETY OF LLOYD'S GROUP INTERIM REVIEW

STRATEGIC REVIEW

In February, Lloyd's published a new strategy for the period 2010-12. The strategy is the result of over 50 discussions with managing agents, brokers and other stakeholders. It does not contain a radical change of direction for Lloyd's, but brings clarity to its aims and objectives. The Corporation is making good progress against its own priorities for 2010.

On Performance Management, the Corporation has introduced a number of initiatives to ensure that the market maintains a resolute focus on underwriting discipline and risk management. In particular we seek to ensure that business being written is profitable and sustainable in light of the current market conditions.

The Corporation continues to be heavily engaged in preparations for Solvency II, the new European regulatory regime. We have entered into the FSA's Internal Model Approval Process and remain on track for implementation in 2013. At the same time, through our lobbying at all levels, the Corporation continues to play a significant role in shaping the detail of how Solvency II will be implemented across Europe.

The ongoing modernisation of the market and drive towards efficiency savings are core to two priorities for 2010. First, we are focused on increasing use of the Exchange, a simple messaging hub, designed to process endorsements electronically, and more quickly than before. All managing agents and 80% of brokers (by premium volume) are now connected to the Exchange and we aim to process 100% of Marine endorsements through it by the end of 2010.

Second, the Claims Transformation project is designed to improve customers' experience when they make claims. Over the first six months of this year, the Corporation has run a pilot across three lines of business.

We have also been working with the Lloyd's Broker community, the London and International Insurance Brokers' Association (LIIBA) and the LMA to improve the distribution network, particularly to examine ways to encourage smaller brokers to access the Lloyd's market and to improve the experience of all brokers as they deal with Lloyd's.

The Corporation also continues work to improve Lloyd's international reach. In May 2010, Lloyd's was awarded a licence to write direct insurance by the Chinese authorities, with the aim of going live in mid 2011. This will open up opportunities in the world's second largest economy and one of the fastest growing insurance markets. In May 2010, representatives from the market visited Moscow as part of a Market Development visit to explore opportunities and build relations with the local market.

These priorities, together, are aimed at achieving the strategic vision – to be the market of choice for insurance and reinsurance buyers and sellers.

FINANCIAL REVIEW

OPERATING SURPLUS

The Society of Lloyd's achieved an operating surplus of £232m (June 2009: £101m), an increase of 130%.

TOTAL INCOME

Total income for the six month period was £326m (June 2009: £208m), an increase of 57%. This is driven by other group income which has increased by £113m due to the recovery of undertakings previously paid out by the Central Fund.

General insurance net premium income has decreased by £2m. The 2009 figure included £3m in respect of the contract to reinsure the members of Syndicate 1204.

OPERATING EXPENSES

Operating expenses for the six month period were £95m (June 2009: £107m), a decrease of 11%. The level of Central Fund claims and provisions has decreased to £2m (June 2009: £11m), reflecting the continued favourable development on the run-off of insolvent members. Furthermore, the 2009 operating expenses include net insurance claims incurred of £3m as a result of the reinsurance of the members of Syndicate 1204.

Other operating expenses in total are materially unchanged at £93m (June 2009: £93m). We remain focussed on delivering our objectives while maintaining cost discipline.

INVESTMENT INCOME

The Society's investment income for the six month period was a gain of £47m, representing a return on central assets of 2.0% (June 2009: a loss of £16m, (0.7)%). Strong returns from high quality fixed interest investments have been partly offset by falls in the value of equities as well as losses arising from foreign currency exposures maintained to manage equivalent exposures arising on the Society's liabilities. Adjusting for these currency gains, as well as interest costs, arising on the Society's issued debt liabilities, the net return in the period was a gain of £32m, or 2.1% of net assets (June 2009: a loss of £19m, (1.5)%).

RESULTS SUMMARY

Overall, the surplus after tax for the six months to June was £191m (June 2009: a surplus of £87m). The net assets of the Society of Lloyd's (the 'Society') increased by £165m in the six months to June 2010 to £1,291m.

At 31 December 2009 a provision of £27m was recognised in respect of the Income Assistance Scheme, which replaced the previous discretionary schemes and as such provided certainty to Names that were eligible. During the period 75% of Names under the new scheme accepted the offer to commute their agreements, which has reduced the provision in respect of the Society's ongoing obligations to £6m.

CONCLUSION

While the outlook for financial markets remains uncertain, our overall capital position is strong, with the Central Fund comfortably in excess of our immediate regulatory and rating requirements. We continue to work with the market to deliver the Lloyd's Strategy.

COUNCIL OF LLOYD'S STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties and the way in which they are managed are set out on page 30 of the Society of Lloyd's 2009 Annual Report under the heading 'Risk Management' within the strategic review. The principal risks and uncertainties were: failure to manage Lloyd's response to the insurance cycle; failure to manage Lloyd's response to the impact of the unstable economic and financial climate; failure to develop and apply a comprehensive Solvency II-compliant risk appetite framework; failure to recognise and understand the potential impact of Solvency II; failure of market operations initiatives; failure to attract or retain suitable individuals to key roles.

As part of the ongoing risk and control assessment process the Council considers that, since the date of the 2009 Annual Report, failure to attract or retain suitable individuals to key roles is no longer a principal risk and uncertainty as appropriate mitigating action has been taken. In addition, as the regulatory environment for financial markets in the UK is undergoing a period of significant change, the Council considers that failure to recognise and understand the potential impact of this change is a principal risk and uncertainty for the Society. Lloyd's will continue to engage closely with the Government and with the relevant regulatory bodies during the consultation and implementation period. The remaining principal risks and uncertainties have not changed materially since the date of the 2009 Annual Report.

COUNCIL OF LLOYD'S STATEMENT OF RESPONSIBILITIES

We confirm that to the best of our knowledge:

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

> The Chairman and Chief Executive's statement and the Society of Lloyd's group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements.

> The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year.

> The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

On behalf of the Council of Lloyd's

LORD LEVENE OF PORTSOKEN
Chairman

RICHARD WARD
Chief Executive Officer

27 September 2010

GROUP INCOME STATEMENT

for the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Operating income		**107,355**	100,387	195,043
Central Fund contributions	3(I)	**104,567**	101,915	99,687
General insurance net premium income		**435**	2,905	6,992
Other group income		**114,134**	2,429	52,048
Total income		**326,491**	207,636	353,770
Central Fund claims and provisions (incurred)/released	3(II)	**(1,557)**	(10,897)	19,586
Gross insurance claims		**(2,665)**	(22,624)	(6,714)
Insurance claims recoverable from reinsurers		**2,479**	20,076	302
Other group operating expenses		**(93,022)**	(93,210)	(240,062)
Operating surplus		**231,726**	100,981	126,882
Finance costs	4(I)	**(32,613)**	(85,383)	(69,345)
Finance income				
– Surplus on subordinated debt repurchase	4(II)	**–**	36,205	36,205
– Other	4(II)	**46,791**	34,354	79,555
Unrealised exchange gains on borrowings		**17,529**	32,234	23,003
Share of profits of associates		**1,681**	1,965	3,363
Surplus before tax		**265,114**	120,356	199,663
Tax charge	5	**(74,147)**	(33,695)	(56,596)
Surplus for the period/year		**190,967**	86,661	143,067

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Surplus for the period/year		**190,967**	86,661	143,067
Other comprehensive income				
Unrealised gain on revaluation of Lloyd's Collection		**–**	–	1,200
Actuarial (loss)/gain on pension liabilities				
– UK	6	**(36,124)**	(23,972)	(10,552)
– Overseas		**–**	–	30
– Associates		**(272)**	–	(544)
Tax credit relating to components of comprehensive income		**10,191**	6,712	2,772
Net other comprehensive income for the period/year		**(26,205)**	(17,260)	(7,094)
Total comprehensive income for the period/year		**164,762**	69,401	135,973

GROUP STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Note	30 June 2010 £000	30 June 2009 £000	31 December 2009 (Audited) £000
Assets				
Intangible assets		**105**	52	59
Lloyd's Collection		**12,019**	10,821	12,021
Property, plant and equipment		**30,371**	19,465	24,199
Deferred tax asset		**12,602**	10,702	2,937
Investment in associates		**3,602**	5,297	6,303
Insurance contract assets		**53,351**	46,917	43,361
Loans recoverable		**54,874**	54,229	54,614
Financial investments	8	**2,532,198**	1,981,953	2,141,730
Inventories		**178**	204	201
Trade and other receivables due within one year		**53,681**	61,063	51,532
Prepayments and accrued income		**19,010**	15,414	62,857
Forward currency contracts		**23,529**	66,992	24,722
Cash and cash equivalents		**229,060**	320,772	178,216
Total assets		**3,024,580**	2,593,881	2,602,752
Equity and liabilities				
Equity				
Accumulated reserve		**1,278,809**	1,048,673	1,114,045
Revaluation reserve		**12,019**	10,821	12,021
Total equity		**1,290,828**	1,059,494	1,126,066
Liabilities				
Subordinated notes and perpetual subordinated capital securities	4(III)	**941,063**	948,312	958,075
Insurance contract liabilities		**101,772**	90,699	90,929
Pension liabilities	6	**56,716**	56,169	22,061
Provisions		**63,297**	99,126	82,172
Loans funding statutory insurance deposits		**270,107**	135,781	166,692
Trade and other payables		**108,421**	60,058	78,098
Accruals and deferred income		**99,142**	92,121	47,295
Tax payable		**72,287**	24,845	18,492
Forward currency contracts		**20,947**	27,276	12,872
Total liabilities		**1,733,752**	1,534,387	1,476,686
Total equity and liabilities		**3,024,580**	2,593,881	2,602,752

Approved and authorised for issue by the Council of Lloyd's on 27 September 2010 and signed on their behalf by

LORD LEVENE OF PORTSOKEN
Chairman

RICHARD WARD
Chief Executive Officer

GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010

	Accumulated reserve £000	Revaluation reserve £000	Total equity £000
At 1 January 2009	979,269	10,824	990,093
Total comprehensive income for the period	69,401	–	69,401
Transfer between reserves	3	(3)	–
At 30 June 2009	1,048,673	10,821	1,059,494
Total comprehensive income for the period	65,372	1,200	66,572
Transfer between reserves	–	–	–
At 31 December 2009	1,114,045	12,021	1,126,066
Total comprehensive income for the period	**164,762**	**–**	**164,762**
Transfer between reserves	**2**	**(2)**	**–**
At 30 June 2010	**1,278,809**	**12,019**	**1,290,828**

GROUP STATEMENT OF CASH FLOWS

for the six months ended 30 June 2010

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Surplus before tax	**265,114**	120,356	199,663
Finance income – surplus on subordinated note repurchase	**–**	(36,205)	(36,205)
Net finance (income)/cost – other	**(14,178)**	51,029	(10,210)
Unrealised exchange gains on borrowings	**(17,529)**	(32,234)	(23,003)
Share of profits of associates	**(1,681)**	(1,965)	(3,363)
Operating surplus	**231,726**	100,981	126,882
Central Fund claims and provisions incurred/(released)	**1,557**	10,897	(19,586)
Operating surplus before Central Fund claims and provisions	**233,283**	111,878	107,296
Adjustments for:			
Depreciation of property, plant and equipment	**2,357**	2,027	4,346
Amortisation of intangible assets	**182**	47	95
Impairment losses	**–**	–	8
Loss/(profit) on sale of fixed assets	**1**	(1)	2
Operating surplus before working capital changes and claims paid	**235,823**	113,951	111,747
Changes in pension obligations	**(1,470)**	(589)	(21,247)
Decrease/(increase) in receivables	**34,489**	7,595	(20,958)
Decrease in inventories	**23**	2	5
Increase/(decrease) in payables	**94,973**	2,012	(24,324)
(Decrease)/increase in provisions other than for Central Fund claims	**(18,855)**	(4,096)	28,769
Cash generated from operations before claims paid	**344,983**	118,875	73,992
Claims paid in respect of corporate/insolvent members	**(1,077)**	(16,601)	(35,124)
Tax and interest payments in respect of corporate/insolvent members	**–**	(5)	(27)
Claims paid in respect of individual members	**(206)**	(306)	(992)
Claims paid in respect of Limited Financial Assistance Agreements	**(293)**	(627)	(732)
Cash generated from operations	**343,407**	101,336	37,117
Tax paid	**(19,903)**	(24,666)	(50,250)
Net cash generated/(used) from operating activities	**323,504**	76,670	(13,133)
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets	**(8,759)**	(2,285)	(9,560)
Proceeds from the sale of equipment	**2**	16	172
Purchase of financial investments	**(2,095,656)**	(2,521,808)	(4,020,866)
Receipts from the sale of financial investments	**1,727,987**	2,601,427	4,076,675
(Increase)/decrease in short-term deposits	**(20)**	24,996	372
Dividends received from associates	**4,187**	3,133	3,133
Interest received	**35,971**	45,461	77,511
Dividends received	**1,571**	1,918	2,884
Realised gain/(loss) on settlement of forward currency contracts	**2,220**	(12,803)	(57,082)
Net cash (used)/generated in investing activities	**(332,497)**	140,055	73,239
Cash flows from financing activities			
Purchase of subordinated notes	**–**	(65,795)	(65,795)
Interest paid on subordinated notes	**(32,680)**	(36,725)	(70,989)
Other interest paid	**(1,375)**	(436)	(82)
Increase in borrowings for statutory insurance deposits	**94,006**	6,564	54,481
Net cash generated/(used) from financing activities	**59,951**	(96,392)	(82,385)
Net increase/(decrease) in cash and cash equivalents	**50,958**	120,333	(22,279)
Effect of exchange rates on cash and cash equivalents	**(114)**	(836)	(780)
Cash and cash equivalents at 1 January	**178,216**	201,275	201,275
Cash and cash equivalents at 30 June/31 December	**229,060**	320,772	178,216

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

as at 30 June 2010

1. THE GROUP INTERIM FINANCIAL STATEMENTS

The group interim financial statements of the Society were approved by the Council of Lloyd's on 27 September 2010. The group interim financial statements comprise the consolidation of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund, and the group's interest in associates as at each statement of financial position date. The group interim financial statements for the six months ended 30 June 2010 and 30 June 2009 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2010, is set out on page 28.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2009 prepared under IFRS as adopted by the European Union. Their report was included in the Annual Report 2009 which was published on 24 March 2010 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

2. PRINCIPAL ACCOUNTING POLICIES AND CONFORMITY WITH IAS 34 'INTERIM FINANCIAL REPORTING'

The accounting policies are consistent with those adopted for the Society of Lloyd's Annual Report 2009, which was approved on 23 March 2010.

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

3. SEGMENTAL ANALYSIS

The Society's primary business segments are as follows:

(a) Corporation of Lloyd's and non-insurance related subsidiary undertakings: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are excluded from this business segment.

(b) Lloyd's Central Fund: these funds comprising the New Central Fund and 'Old' Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of 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.

(c) Insurance activities: the Society has three insurance company subsidiary undertakings, Centrewrite Limited, Lioncover Insurance Company Limited (see note 7), and Lloyd's Reinsurance Company (China) Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates allowing an early exit from Lloyd's and Estate Protection Plan insurance to members. Centrewrite has also reinsured the members of syndicates 535 and 1204 for outstanding claims in respect of certain years of account. Lloyd's Reinsurance Company (China) Limited underwrites onshore reinsurance business throughout China.

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

		Six months ended 30 June 2010			
A) INFORMATION BY BUSINESS SEGMENT	Note	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Insurance activities £000	Society total £000
Segment income					
Segment income (unconsolidated)		108,067	217,867	2,151	328,085
Less inter-segment income		(1,594)	–	–	(1,594)
Total income from external sources		106,473	217,867	2,151	326,491
Segment operating expenses (consolidated)					
Central Fund claims and provisions incurred	3(II)	–	(1,557)	–	(1,557)
Gross claims incurred		–	–	(2,665)	(2,665)
Claims recoverable from reinsurers		–	–	2,479	2,479
Other group operating expenses:					
– Employment (including pension costs)		(40,394)	–	(1,158)	(41,552)
– Premises		(19,452)	–	(349)	(19,801)
– Legal and professional		(9,969)	(670)	(178)	(10,817)
– Systems and communications		(8,855)	–	(198)	(9,053)
– Other		(9,745)	(2,025)	(29)	(11,799)
Total other group operating expenses		(88,415)	(2,695)	(1,912)	(93,022)
Total segment operating expenses		(88,415)	(4,252)	(2,098)	(94,765)
Total segment operating surplus		18,058	213,615	53	231,726
Finance costs	4(I)	(17)	(32,596)	–	(32,613)
Finance income – other	4(II)	445	44,595	1,751	46,791
Unrealised exchange gains on borrowings		–	17,529	–	17,529
Share of profits of associates		1,681	–	–	1,681
Segment surplus before tax		20,167	243,143	1,804	265,114
Tax charge					(74,147)
Surplus for the period					190,967
Segment assets and liabilities					
Investment in associates		3,602	–	–	3,602
Other assets		542,536	2,274,597	191,243	3,008,376
Segment assets		546,138	2,274,597	191,243	3,011,978
Tax assets					12,602
Total assets					3,024,580
Segment liabilities		(484,841)	(1,048,496)	(128,128)	(1,661,465)
Tax liabilities					(72,287)
Total liabilities					(1,733,752)

Lloyd's Central Fund income includes £113m due to the recovery of undertakings previously paid out.

3. SEGMENTAL ANALYSIS CONTINUED

A) INFORMATION BY BUSINESS SEGMENT CONTINUED	Note	Six months ended 30 June 2009 Corporation of Lloyd's £000	Lloyd's Central Fund £000	Insurance activities £000	Society total £000
Segment income					
Segment income (unconsolidated)		102,740	102,051	4,382	209,173
Less inter-segment income		(1,537)	–	–	(1,537)
Total income from external sources		101,203	102,051	4,382	207,636
Segment operating expenses (consolidated)					
Central Fund claims and provisions incurred	3(II)	–	(10,897)	–	(10,897)
Gross claims incurred		–	–	(22,624)	(22,624)
Claims recoverable from reinsurers		–	–	20,076	20,076
Other group operating expenses:					
– Employment (including pension costs)		(42,166)	–	(1,112)	(43,278)
– Premises		(18,676)	–	(315)	(18,991)
– Legal and professional		(7,422)	(123)	(10)	(7,555)
– Systems and communications		(10,156)	–	(193)	(10,349)
– Other		(9,187)	(4,180)	330	(13,037)
Total other group operating expenses		(87,607)	(4,303)	(1,300)	(93,210)
Total segment operating expenses		(87,607)	(15,200)	(3,848)	(106,655)
Total segment operating surplus		13,596	86,851	534	100,981
Finance costs	4(I)	(1,000)	(82,729)	(1,654)	(85,383)
Finance income:					
– Surplus on subordinated debt repurchase	4(II)	–	36,205	–	36,205
– Other	4(II)	2,112	30,959	1,283	34,354
Unrealised exchange gains on borrowings		–	32,234	–	32,234
Share of profits of associates		1,965	–	–	1,965
Segment surplus before tax		16,673	103,520	163	120,356
Tax charge					(33,695)
Surplus for the period					86,661
Segment assets and liabilities					
Investment in associates		5,297	–	–	5,297
Other assets		393,864	2,023,768	160,250	2,577,882
Segment assets		399,161	2,023,768	160,250	2,583,179
Tax assets					10,702
Total assets					2,593,881
Segment liabilities		(329,673)	(1,078,330)	(101,539)	(1,509,542)
Tax liabilities					(24,845)
Total liabilities					(1,534,387)

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

A) INFORMATION BY BUSINESS SEGMENT CONTINUED	Note	Full year 2009 (Audited) Corporation of Lloyd's £000	Lloyd's Central Fund £000	Insurance activities £000	Society total £000
Segment income					
Segment income (unconsolidated)		197,900	148,830	10,052	356,782
Less inter-segment income		(3,012)	–	–	(3,012)
Total income from external sources		194,888	148,830	10,052	353,770
Segment operating expenses (consolidated)					
Central Fund claims and provisions released	3(II)	–	19,586	–	19,586
Gross claims incurred		–	–	(6,714)	(6,714)
Claims recoverable from reinsurers		–	–	302	302
Other group operating expenses:					
– Employment (including pension costs)		(89,417)	–	(2,613)	(92,030)
– Premises		(38,442)	–	(614)	(39,056)
– Legal and professional		(17,394)	(1,294)	(401)	(19,089)
– Systems and communications		(21,597)	–	(339)	(21,936)
– Other		(21,895)	(44,901)	(1,155)	(67,951)
Total other group operating expenses		(188,745)	(46,195)	(5,122)	(240,062)
Total segment operating expenses		(188,745)	(26,609)	(11,534)	(226,888)
Total segment operating surplus/(deficit)		6,143	122,221	(1,482)	126,882
Finance costs	4(I)	(112)	(69,233)	–	(69,345)
Finance income:					
– Surplus on subordinated debt repurchase	4(II)	–	36,205	–	36,205
– Other	4(II)	1,741	74,810	3,004	79,555
Unrealised exchange gains on borrowings		–	23,003	–	23,003
Share of profits of associates		3,363	–	–	3,363
Segment surplus before tax		11,135	187,006	1,522	199,663
Tax charge					(56,596)
Surplus for the year					143,067
Segment assets and liabilities					
Investment in associates		6,303	–	–	6,303
Other assets		345,672	2,082,451	165,389	2,593,512
Segment assets		351,975	2,082,451	165,389	2,599,815
Tax assets					2,937
Total assets					2,602,752
Segment liabilities		(273,251)	(1,080,281)	(104,662)	(1,458,194)
Tax liabilities					(18,492)
Total liabilities					(1,476,686)

3. SEGMENTAL ANALYSIS CONTINUED

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

B) NET CENTRAL ASSETS	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Central fund			
Net assets 1 January	**983,269**	852,384	852,384
Operating surplus	**209,853**	82,290	116,406
Intra-group transactions	**1,254**	1,254	2,508
Net finance income	**29,528**	16,669	64,785
Tax charge	**(67,853)**	(28,909)	(52,814)
Net assets at 30 June/31 December	**1,156,051**	923,688	983,269
Corporation of Lloyd's and subsidiary undertakings	**134,777**	135,806	142,796
Net Society assets at 30 June/31 December	**1,290,828**	1,059,494	1,126,066
Subordinated notes	**503,826**	511,525	521,061
Perpetual subordinated capital securities	**437,237**	436,787	437,014
Net central assets excluding subordinated debt liabilities	**2,231,891**	2,007,806	2,084,141

(I) CENTRAL FUND CONTRIBUTIONS FROM MEMBERS AND CORPORATION OF LLOYD'S SUBSCRIPTIONS

During the six months ended 30 June 2010, members paid to the Central Fund (Central Fund contributions) and to the Corporation of Lloyd's (subscriptions) at 0.5% of business plan premium. The ultimate amounts to be retained by the Central Fund and the Corporation of Lloyd's for 2010 will be based on actual 2010 written premiums, of members, the quantification of which will not be known until 2012. The £105m (Central Fund contributions) and £47m (subscriptions) included in the 2010 interim group income statement are based on present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively.

(II) CENTRAL FUND CLAIMS AND PROVISIONS

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Net undertakings (granted)/released	**(1,801)**	(16,888)	12,615
Provisions released in respect of Limited Financial Assistance Agreements	**450**	6,302	7,990
Claims payable in respect of individual members	**(206)**	(306)	(992)
Tax and interest payable in respect of insolvent members	**–**	(5)	(27)
Central Fund claims and provisions (incurred)/released	**(1,557)**	(10,897)	19,586

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

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

During the six months to 30 June 2010, undertakings of £1m were paid to corporate members (30 June 2009: £17m; 31 December 2009: £35m).

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

4. FINANCE

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
(I) Finance costs			
Interest payable on financial liabilities measured at amortised cost	**(32,079)**	(34,538)	(68,178)
Loss on investments including unrealised movement of forward currency contracts	**–**	(50,261)	–
Other interest payable and similar charges	**(17)**	(61)	(112)
Amortisation of issue costs and discount	**(517)**	(523)	(1,055)
	(32,613)	(85,383)	(69,345)
(II) Finance income			
Surplus on subordinated debt repurchase	**–**	36,205	36,205
Interest and dividends receivable	**3,067**	6,428	8,318
Gain on investments including unrealised movement of forward currency contracts	**42,648**	28,929	71,737
Movement in loans recoverable	**1,076**	(1,003)	(500)
	46,791	70,559	115,760

(III) SUBORDINATED DEBT REPURCHASE

On 30 April 2009, the Society of Lloyd's announced it would repurchase the local currency equivalent of £102m of its outstanding debt securities following its invitation to holders to submit offers to sell their holdings. The Society purchased a principal amount of £59,631,000 of its perpetual subordinated capital securities at a cost of £35,778,600 and a principal amount of €47,315,000 of its subordinated notes maturing in 2024 at a cost of €33,120,150. The Society additionally paid accrued interest on the purchased securities. The profit on the repurchase was £36,205,000.

5. TAXATION

A. Analysis of total tax charge	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Current tax:			
Corporation tax based on profits for the period/year at 28%	**(73,594)**	(33,217)	(51,178)
Adjustments in respect of previous periods	**–**	–	(1,188)
Foreign tax suffered	**(104)**	(112)	(192)
Total current tax	**(73,698)**	(33,329)	(52,558)
Deferred tax:			
Origination and reversal of timing differences:			
– Current year	**(449)**	(366)	(4,492)
– Prior year	**–**	–	454
Tax charged recognised in the group income statement	**(74,147)**	(33,695)	(56,596)
Analysis of tax charge recognised in the group statement of comprehensive income:			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's Collection	**–**	–	(335)
Tax credit on actuarial loss on group pension liabilities	**10,191**	6,712	3,107
Tax credit recognised in the group statement of comprehensive income	**10,191**	6,712	2,772
Total tax charge	**(63,956)**	(26,983)	(53,824)

5. TAXATION CONTINUED

B. Reconciliation of effective tax rate	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Surplus on ordinary activities before tax	**265,114**	120,356	199,663
Corporation tax at 28%	**(74,232)**	(33,700)	(55,906)
Expenses not deductible for tax purposes	**(518)**	(540)	(1,062)
Utilisation of tax credits	**45**	112	134
Overseas tax	**(104)**	(112)	(192)
Other	**662**	545	1,164
Deferred tax prior year adjustments	**–**	–	454
Adjustments in respect of previous years	**–**	–	(1,188)
Tax charge	**(74,147)**	(33,695)	(56,596)

A gradual reduction in the UK corporation tax rate from 28% to 24% was announced in the Emergency Budget of 22 June 2010. The reduction is due to be phased in over a period of four years with a 1 per cent reduction each year, starting from 1 April 2011. The Finance (No. 2) Act 2010 enacted on 27 July 2010 included legislation to reduce the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. The tax rate change was not substantively enacted at 30 June 2010, therefore the change has not been reflected in the amounts recognised as at that date. However, it is estimated that the future rate changes will reduce the net deferred tax asset by £1.8m.

6. PENSION LIABILITIES

The Corporation of Lloyd’s operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd’s Pension Scheme. On an IAS 19 ‘Employee Benefits’ valuation basis, the pension scheme deficit at 30 June 2010 was £56m (30 June 2009: £55m; 31 December 2009: £21m) before the allowance of deferred tax. An actuarial loss of £36m, has been recognised in the six months ended 30 June 2010 (30 June 2009: actuarial loss £24m; 31 December 2009: actuarial loss £11m).

The Corporation of Lloyd’s also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2010 is £1m (30 June 2009: £1m; 31 December 2009: £1m).

7. LIONCOVER INSURANCE COMPANY LIMITED

The insurance contract liabilities of Lioncover (‘the Company’) were wholly reinsured into Equitas in 1997 and the Company does not accept new business.

On 10 November 2006, Equitas Limited, Equitas Holdings Limited and Equitas Management Services Limited entered into an agreement with a Berkshire Hathaway group undertaking, National Indemnity Company (‘NICO’). That agreement became effective from 30 March 2007. As part of this transaction, the day to day running of the run-off business, including that of Lioncover, is performed by Resolute Management Services Ltd, a wholly owned subsidiary of NICO.

Following court approval on 25 June 2009, Phase 2 of the transaction was completed on 30 June 2009 when the liabilities of members and former members of Lloyd’s in respect of non-life business allocated to the 1992 or prior years of account were transferred to Equitas Insurance, a subsidiary of Equitas Holdings Limited, and Lioncover’s reinsurance liabilities were terminated, pursuant to the provisions of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The insurance business transfer has resulted in finality for members of the PCW syndicates under the law of each state within the EEA. As a result of this transaction as at 30 June 2009, Lioncover no longer has reinsurance liabilities to any person nor any entitlement to any reinsurance recoveries.

By a letter agreement dated 16 June 2009, Equitas Reinsurance Limited released the Company from all of its residual liabilities under the reinsurance contract dated 18 December 1997 (as regards any misrepresentation or breach of warranty arising from any dishonest misstatement or concealment by certain individuals) on the basis that Lloyd’s agree to be substituted as primary obligor.

It is the Corporation of Lloyd’s intention to de-register the Company from the FSA Register and then dissolve the Company and, if it is possible, for these steps to be undertaken within the current accounting year.

8. FINANCIAL INVESTMENTS

	30 June 2010 £000	30 June 2009 £000	31 December 2009 (Audited) £000
Statutory insurance deposits	**276,906**	144,049	175,248
Other investments	**2,255,292**	1,837,904	1,966,482
	2,532,198	1,981,953	2,141,730

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

8. FINANCIAL INVESTMENTS CONTINUED

A) STATUTORY INSURANCE DEPOSITS

	30 June 2010 Securities £000	30 June 2010 Deposits £000	30 June 2010 Total £000	30 June 2009 £000	31 December 2009 (Audited) £000
Market value at 1 January	**18,677**	**156,571**	**175,248**	154,576	154,576
Additions at cost	**100,077**	**148,910**	**248,987**	214,344	357,969
Disposal proceeds	**(10,523)**	**(144,980)**	**(155,503)**	(205,778)	(324,232)
Surplus/(deficit) on the sale and revaluation of investments	**10**	**8,164**	**8,174**	(19,093)	(13,065)
Market value	**108,241**	**168,665**	**276,906**	144,049	175,248

	30 June 2010 Cost £000	30 June 2010 Valuation £000	30 June 2009 Cost £000	30 June 2009 Valuation £000	31 December 2009 (Audited) Cost £000	31 December 2009 (Audited) Valuation £000
Analysis of securities at period end:						
Government	**106,560**	**106,674**	25,948	26,308	16,556	17,157
Corporate securities	**1,127**	**1,567**	7,259	9,135	1,127	1,520
Market value	**107,687**	**108,241**	33,207	35,443	17,683	18,677

B) OTHER INVESTMENTS

	30 June 2010 Corporation of Lloyd's £000	30 June 2010 Central Fund £000	30 June 2010 Insurance activities £000	30 June 2010 Total £000	30 June 2009 Total £000	31 December 2009 (Audited) Total £000
Market value at 1 January	**10,006**	**1,879,030**	**77,446**	**1,966,482**	2,075,580	2,075,580
Additions at cost	**–**	**1,723,426**	**123,243**	**1,846,669**	2,301,956	3,662,897
Increase in short-term deposits	**52,395**	**(52,375)**	**–**	**20**	59,754	(372)
Disposal proceeds	**–**	**(1,456,275)**	**(116,209)**	**(1,572,484)**	(2,483,468)	(3,752,443)
Surplus/(deficit) on the sale and revaluation of investments	**–**	**32,156**	**(17,551)**	**14,605**	(115,918)	(19,180)
Market value	**62,401**	**2,125,962**	**66,929**	**2,255,292**	1,837,904	1,966,482
Analysis of securities at period end:						
Listed securities						
Fixed interest:						
– Government	**–**	**981,263**	**45,359**	**1,026,622**	603,779	623,467
– Corporate securities	**–**	**749,687**	**17,160**	**766,847**	789,874	898,267
– Emerging markets	**–**	**29,382**	**–**	**29,382**	24,817	25,444
– High yield	**–**	**39,068**	**–**	**39,068**	26,256	35,249
	–	**1,799,400**	**62,519**	**1,861,919**	1,444,726	1,582,427
Equities						
– Global	**–**	**173,341**	**–**	**173,341**	136,539	171,989
– Emerging markets	**–**	**33,303**	**–**	**33,303**	24,350	31,362
	–	**206,644**	**–**	**206,644**	160,889	203,351
Total listed securities	**–**	**2,006,044**	**62,519**	**2,068,563**	1,605,615	1,785,778
Unlisted securities						
Hedge funds	**–**	**78,452**	**–**	**78,452**	69,287	72,447
Short-term deposits	**62,401**	**21,466**	**4,410**	**88,277**	143,002	88,257
Security deposits	**–**	**20,000**	**–**	**20,000**	20,000	20,000
Total unlisted securities	**62,401**	**119,918**	**4,410**	**186,729**	232,289	180,704
Market value	**62,401**	**2,125,962**	**66,929**	**2,255,292**	1,837,904	1,966,482

9. RELATED PARTY TRANSACTIONS

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

Services provided to Ins-sure Holdings Limited group in the period to 30 June 2010 included operating systems support and development, premises and other administrative services. The total value of the services provided was £173,000 (30 June 2009: £172,000; 31 December 2009: £313,000). In addition, Ins-sure Holdings Limited group charged the Society £622,000 for services provided in the same period (30 June 2009: £1,275,000; 31 December 2009: £1,673,000).

At 30 June 2010, there was a balance of £56,000 (30 June 2009: £66,000; 31 December 2009: 25,000) owing from Ins-sure Holdings Limited group to the Society. The Society owed £28,000 to Ins-sure Holdings Limited at the same date (30 June 2009: £117,000; 31 December 2009: £21,000).

Services provided to Xchanging Claims Services Limited group in the period to 30 June 2010 included premises and other administrative services. The total value of the services provided was £32,000 (30 June 2009: £47,000; 31 December 2009: £106,000). Xchanging Claims Services Limited group charged the Society £223,000 for services provided in the same period (30 June 2009: £nil; 31 December 2009: £nil).

At 30 June 2010, there was a balance of £nil (30 June 2009: £nil; 31 December 2009: £16,000) owing from Xchanging Claims Services Limited group to the Society. The Society owed £223,000 (30 June 2009: £nil; 31 December 2009: £nil) to Xchanging Claims Services Limited at the same date.

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

A member of Council, Rupert Atkin, is also a Director of Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited. During the period the Society received other income of £106m relating to undertakings previously paid out in respect of these companies.

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

10. CONTINGENT LIABILITIES

A) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees as at 30 June 2010 amounted to £30m (30 June 2009: £22m; 31 December 2009: £26m).

B) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

In connection with the statutory transfer to Equitas Insurance Limited on 30 June 2009 of the non-life business underwritten at Lloyd's and allocated to 1992 or prior years of account, the Society has entered into undertakings for the benefit of certain policyholders of Equitas Insurance Limited (former policyholders of PCW syndicates or of members who at the material time still have the benefit of hardship or other agreements with the Society), under which the Society would meet any shortfall in recoveries by such policyholders from Equitas Insurance Limited on the occurrence of an 'Equitas Insolvency Event'.

The Society has also given an unlimited undertaking to its subsidiary undertaking Centrewrite Limited to meet any shortfall in its cash flow or assets (including any shortfall arising from an insufficiency of recoveries from Equitas Reinsurance Limited under its reinsurance of the obligations of Centrewrite to Equitas Insurance Limited).

C) Uncollateralised bank guarantees and other arrangements have been entered into by the Society and its subsidiary undertaking, Additional Securities Limited, to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	Six months ended 30 June 2010 £000	Six months ended 30 June 2009 £000	Full year 2009 (Audited) £000
Guarantees provided by the Society: USA: US$1,500,000 (2009: US$1,500,000)	**1,003**	911	929
Guarantees provided by the Society including Additional Securities Limited:			
Cayman Islands: Letter of credit US$1,250,000 (2009: US$1,250,000)	**836**	759	774
Hong Kong: Letter of credit HKD 81,156,212 (2009: HKD 90,105,685)	**6,966**	7,060	–

D) In Quebec, proceedings have been issued by Agence Nationale D'Encadrement Du Secteur Financier as the regulator of the Quebec policyholder protection fund, by 91 alleged insureds and by one intermediary who was offering extended warranty programmes to automobile dealers against the Society and other parties arising out of the issue by a coverholder of purported 'policies of insurance' without the authority of a Lloyd's syndicate. The Society does not accept any liability in respect of this action.

In respect of all contingent liabilities disclosed as at 30 June 2010, no provision has been made in the Society financial statements as the Society does not accept any liability in respect of any of the claims.

INDEPENDENT REVIEW REPORT TO THE SOCIETY OF LLOYD'S

INTRODUCTION
We have been engaged by the Council of Lloyd's to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of changes in equity, the group statement of cash flows and the related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society of Lloyd's in accordance with guidance contained in ISRE 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

COUNCIL OF LLOYD'S RESPONSIBILITY
The half-yearly financial report is the responsibility of, and has been approved by, the Council of Lloyd's. The Council of Lloyd's is responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the Society of Lloyd's are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

OUR RESPONSIBILITY
Our responsibility is to express to the Society of Lloyd's a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

CONCLUSION
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

ERNST & YOUNG LLP
London

27 September 2010

Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

The cover and text pages of this report are printed on Revive 50:50 Silk, a recycled paper containing 50% recovered waste, 50% virgin fibre and is certified as an FSC mixed sources grade. Revive 50:50 is manufactured to the certified environmental management system ISO 14001.
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