LLOYD'S

# Interim Report
*2015*


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*Six months ended 30 June 2015*

# 2015
## *At a Glance*

### Financial Highlights

- Lloyd's market made a profit of £1,194m (2014: £1,652m).
- Combined ratio of 89.5% (2014: 87.4%)
- Gross written premium of £15,513m (2014:£14,481m).
- Capital, reserves and subordinated loan notes stand at £22,844m (2014: £20,780m).

### Gross written premium

| £m | Half year | Full year |
|---|---|---|
| 2011 | 13,534 | 23,337 |
| 2012 | 14,768 | 25,173 |
| 2013 | 15,496 | 25,615 |
| 2014 | 14,481 | 25,259 |
| 2015 | 15,513 | |

### Result before tax

| £m | Half year | Full year |
|---|---|---|
| 2011 | (697) | (516) |
| 2012 | 1,530 | 2,771 |
| 2013 | 1,379 | 3,205 |
| 2014 | 1,652 | 3,052 |
| 2015 | 1,194 | |

### Capital, reserves and subordinated debt and securities

| £m | Half year | Full year |
|---|---|---|
| 2011 | 17,357 | 19,114 |
| 2012 | 20,055 | 20,193 |
| 2013 | 20,873 | 21,107 |
| 2014 | 20,780 | 23,414 |
| 2015 | 22,844 | |

### Central assets

| £m | Half year | Full year |
|---|---|---|
| 2011 | 2,472 | 2,388 |
| 2012 | 2,459 | 2,485 |
| 2013 | 2,362 | 2,384 |
| 2014 | 2,447 | 2,578 |
| 2015 | 2,655 | |

### Return on capital (annualised)

| % | Half year | Full year |
|---|---|---|
| 2011 | (8.1) | (2.8) |
| 2012 | 16.4 | 14.8 |
| 2013 | 14.0 | 16.2 |
| 2014 | 16.3 | 14.2 |
| 2015 | 10.7 | |

### Combined ratio

| % | Half year | Full year |
|---|---|---|
| 2011 | 113.3 | 106.8 |
| 2012 | 88.7 | 91.1 |
| 2013 | 86.9 | 86.8 |
| 2014 | 87.4 | 88.3 |
| 2015 | 89.5 | |

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 as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate results, members' funds at Lloyd's (FAL) and the Society of Lloyd's financial statements.

# Statement from the Chairman and Chief Executive

The Lloyd's market recorded a profit of £1.19bn (2014: £1.65bn) with a combined ratio of 89.5% (2014: 87.4%) and a return on capital of 10.7% (2014: 16.3%) for the first six months of 2015.

These results are down relative to the equivalent period in 2014, due to lower investment returns, and pressure on premium rates.

Nonetheless, in light of the challenging conditions faced by the industry, these results represent a solid achievement supported by favourable prior year reserve releases. Throughout this period Lloyd's continued to outperform its competitor group with a combined ratio 3.3 percentage points better than equivalent companies.

Major claims were below the long term average, although modestly higher than 2014. Notable losses were seen in the offshore energy market which experienced a series of large fully insured losses, including the Pemex oil rig in Mexico and the Petrobras fire and explosions. The Germanwings flight 9525 crash, aircraft bombings during conflict in Yemen and the failed launch of communications satellite MexSat-1 also stand out as significant events in the first six months.

The catastrophic explosions in the Chinese port city of Tianjin in August will lead to insurance and reinsurance claims. It remains too early to assess accurately the impact on our business, but at this stage we would not expect Lloyd's loss to exceed its market share in the affected lines.

With the exception of the tragic earthquakes in Nepal there were few natural catastrophes between January and June. The low insurance penetration in the affected areas led to only a very small number of claims as the country and its economy struggled to recover.

Gross Written Premium increased by 7% to £15.5bn (June 2014: £14.5bn) as a consequence of positive currency movements which offset a fall in pricing. Both existing and new syndicates contributed to the modest underlying growth.

Throughout this period the Lloyd's market showed its agility; remaining disciplined while adding new business and new markets.

Innovative products, such as cyber protection, proved attractive to clients, while traditional specialty lines, including property, casualty and marine, have also grown.

Disappointingly Lloyd's investment return fell by almost half to £339m, (June 2014:£647m) due to June's economic volatility in Europe and the continued low interest rate environment.

At a fundamental level, the market saw pressure on both current premium levels and expense ratios. Pricing continues to present a long term challenge. It is too early to predict when that might change.

Lloyd's financial ratings remain strong; Standard & Poor rates us at A+, Fitch at AA- while A.M. Best has reaffirmed an A status with a positive outlook. Rigorous market oversight, judicious underwriting and sound prudential practices contribute to these ratings.

Our Solvency II internal model application has been submitted and we are seeking approval by year end.

This has been a particularly active six months for the Corporation in terms of executing our strategy and modernising the market.

Lloyd's opened its Beijing office and launched its Dubai platform in March. Since then we have received formal permission to open offices in Colombia and Mexico.

In partnership with the London insurance market, market modernisation has gathered pace. Building on the success of the claims transformation process, work continues to streamline operations and to create synergies across the market.

Recognising changes in the broader marketplace, particularly the reinsurance market, we have been considering ways in which the Corporation can develop structures that would be attractive to alternative capital. We are currently looking at the role the Lloyd's platform could play in harnessing that capital to the benefit of our managing agents and to make our platform more competitive. We anticipate providing more information on this in the autumn.

Looking ahead, market conditions globally, combined with the investment outlook mean that the pressure on financial performance for Lloyd's will be as intense in the medium term as at any time over the last decade. We should expect that an extremely challenging time lies ahead. However, the Lloyd's market is in a robust financial position; well capitalised and well reserved to face the future.

Finally, we would like to take this opportunity to welcome Mark Cloutier to the Lloyd's Franchise Board and to thank our other members on both the Franchise Board and Council for their continued commitment.

**John Nelson**
Chairman

**Inga Beale**
Chief Executive Officer

# Market Commentary

The Lloyd's market writes specialist property and casualty insurance and reinsurance business in over 200 countries and territories worldwide. The pre-tax profit for the first six months of 2015 is £1,194m (June 2014: £1,652m).

## Underwriting review

Gross written premiums for the six months to June 2015 were £15,513m (June 2014: £14,481m) representing an increase of 7.1%. After adjusting for the impact of average exchange rate movements in underlying currency (June 2015: £1:US$1.52, June 2014: £1:US$1.67) the underlying increase in gross written premium was 1.4%.

Against a background of falling rates in most major lines, 4.6% decrease in the aggregate risk adjusted price on renewal business, the modest underlying growth in premium volumes is in part due to evolving lines of business, such as Cyber, new start-up syndicates and business transferred from underwriting platforms outside Lloyd's. Casualty lines have seen the largest growth, followed by Property (direct and facultative), Marine and Accident and Health. Conversely, there has been some contraction in Property Treaty, which is largely rate driven and Motor classes.

The Lloyd's market's accident year combined ratio for the six months to June 2015 was 97.5% (June 2014: 95.4%). The first half of 2015 has been characterised by a relatively benign level of insured losses from natural catastrophes. Major risk events have been limited to the Pemex's Abkatun A – Permanente platform rig explosion ('Pemex') and the Germanwings aviation loss adding just 2.7% to the combined ratio (June 2014: 1.4%).

Offshore energy has been impacted by four headline losses in the Americas off the coasts of Mexico and Brazil and Lloyd's has a significant market share. The largest of these losses resulted from the Pemex fire. Notwithstanding these losses which might have tested market capacity, the fall in oil prices has led to a substantial reduction in demand for insurance in this sector.

Following the frequency of large losses in 2014, aviation/war and space markets have experienced further notable claims in the first six months of this year including the loss of Germanwings Flight 9525, a Proton rocket/Mexican communications satellite failure, and the bombing of civil aircraft in Yemen. Again, with capacity still plentiful, competition in these loss-impacted classes remains intense.

There have been no losses of note in the other major lines but nearly all classes are experiencing an increase in attritional claims experience as rating levels decline.

Prior year reserve releases for the period were £807m (June 2014: £760m) reducing the overall combined ratio by 8.0% (June 2014: 8.0%). Across all classes claims development has been better than expected continuing the trend for surpluses on prior year reserves.

While the Lloyd's market has again benefited from a lower level of major claims activity, this has intensified the competitive pressures, particularly in short tail lines, and the outlook of a continued weakening trading environment remains. Added to this, insurers continue to be challenged by the fragile macro environment, not least the political tensions in Russia and the Ukraine, the terrorism threat in the Middle East and North Africa, the weak global economic conditions and concerns about the future of the Eurozone.

The decline in market conditions has increased the likelihood of mergers and acquisitions as organic profitable growth becomes harder to generate. Further consolidation in the industry can be expected.

The statement of financial position reports stable market level capital and reserves of £22,844m, a small reduction from the year end figure of £23,414m following the distribution of the 2014 earned profits during the period. The capital base remains in a strong position to meet any challenges in the second half of the year.

## Investment review

Economic conditions generally improved over the first half of 2015 but the re-emergence of the Greek debt crisis took centre stage in June, causing a sharp increase in market volatility. Whilst equity markets suffered losses as a result, returns remained positive over the half year. Bond investment returns were also low, but positive, as central banks, particularly in the US and UK, look to be nearing the first steps in removal of accommodative monetary policy.

The disposition of investments at Lloyd's remains conservative with cash and high-quality fixed interest investments accounting for a large proportion of total assets. The value of equity and other growth style assets, including sub-investment grade bonds, has increased but overall, exposure remains a small share of the whole, at 11% of total financial investments. Investment return for the six months to June 2015 was £339m or 0.6% (June 2014: £647m, 1.3%), which is consistent with the modest level of return seen over the previous five years.

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# MARKET RESULTS

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

## Statement of Council's responsibilities

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

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

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

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

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

## Society of Lloyd's Group interim financial statements

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

# Pro Forma Profit and Loss Account

**For the six months ended 30 June 2015**

| Technical account | Six months ended 30 June 2015 £m | Six months ended 30 June 2015 £m | Restated Six months ended 30 June 2014 £m | Restated Six months ended 30 June 2014 £m | Restated Full year 2014 £m | Restated Full year 2014 £m |
|---|---|---|---|---|---|---|
| Gross written premiums | | | | | | |
| Continuing operations | | 15,512 | | 14,482 | | 25,244 |
| Discontinued operations | | 1 | | (1) | | 15 |
| | | 15,513 | | 14,481 | | 25,259 |
| Outward reinsurance premiums | | (4,081) | | (3,573) | | (5,253) |
| Premiums written, net of reinsurance | | 11,432 | | 10,908 | | 20,006 |
| Change in the gross provision for unearned premiums | (2,883) | | (2,653) | | (674) | |
| Change in the provision for unearned premiums, reinsurers' share | 1,488 | | 1,256 | | 183 | |
| | | (1,395) | | (1,397) | | (491) |
| Earned premiums, net of reinsurance | | 10,037 | | 9,511 | | 19,515 |
| Allocated investment return transferred from the non-technical account | | 234 | | 401 | | 659 |
| | | 10,271 | | 9,912 | | 20,174 |
| Claims paid | | | | | | |
| Gross amount | 6,594 | | 5,618 | | 12,039 | |
| Reinsurers' share | (1,532) | | (1,280) | | (2,743) | |
| | | 5,062 | | 4,338 | | 9,296 |
| Change in provision for claims | | | | | | |
| Gross amount | (252) | | (76) | | (282) | |
| Reinsurers' share | 208 | | 431 | | 576 | |
| | | (44) | | 355 | | 294 |
| Claims incurred, net of reinsurance | | 5,018 | | 4,693 | | 9,590 |
| Acquisition costs | 3,503 | | 3,213 | | 5,808 | |
| Change in deferred acquisition costs | (623) | | (565) | | (320) | |
| Administrative expenses | 1,086 | | 971 | | 2,157 | |
| Net operating expenses | | 3,966 | | 3,619 | | 7,645 |
| Balance on the technical account for general business | | 1,287 | | 1,600 | | 2,939 |
| Attributable to: | | | | | | |
| Continuing operations | | 1,269 | | 1,594 | | 2,920 |
| Discontinued operations | | 18 | | 6 | | 19 |
| Total | | 1,287 | | 1,600 | | 2,939 |
| Non-technical account | | | | | | |
| Balance on the technical account for general business | | 1,287 | | 1,600 | | 2,939 |
| Investment return on syndicate assets | 237 | | 485 | | 742 | |
| Notional investment return on funds at Lloyd's | 76 | | 120 | | 202 | |
| Investment return on Society assets | 26 | | 42 | | 94 | |
| | 339 | | 647 | | 1,038 | |
| Allocated investment return transferred to the technical account | (234) | | (401) | | (659) | |
| | | 105 | | 246 | | 379 |
| Profit/(loss) on exchange | | (85) | | (99) | | (58) |
| Other income | | 32 | | 29 | | 70 |
| Other expenses | | (145) | | (124) | | (278) |
| Profit on ordinary activities before tax | | 1,194 | | 1,652 | | 3,052 |

| Statement of comprehensive income | | | |
|---|---|---|---|
| Result for the financial period | 1,194 | 1,652 | 3,052 |
| Other comprehensive income | (64) | (40) | 118 |
| Total comprehensive income | 1,130 | 1,612 | 3,170 |

# Pro Forma Statement of Financial Position

**As at 30 June 2015**

| Financial investments | Note | 30 June 2015 £m | 30 June 2015 £m | Restated 30 June 2014 £m | Restated 30 June 2014 £m | Restated 31 December 2014 £m | Restated 31 December 2014 £m |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities | | 6,721 | | 5,709 | | 6,588 | |
| Debt securities and other fixed income securities | | 29,192 | | 28,085 | | 31,904 | |
| Participation in investment pools | | 1,499 | | 1,790 | | 1,451 | |
| Loans and deposits with credit institutions | | 4,666 | | 5,079 | | 4,835 | |
| Other investments | | 90 | | 82 | | 84 | |
| Total investments | | | 42,168 | | 40,745 | | 44,862 |
| Deposits with ceding undertakings | | | 5 | | 4 | | 3 |
| Reinsurers' share of technical provisions | | | | | | | |
| Provision for unearned premiums | | 3,264 | | 2,891 | | 1,976 | |
| Claims outstanding | | 8,676 | | 8,497 | | 8,785 | |
| | | | 11,940 | | 11,388 | | 10,761 |
| Debtors | | | | | | | |
| Debtors arising out of direct insurance operations | | 7,117 | | 6,639 | | 6,189 | |
| Debtors arising out of reinsurance operations | | 5,195 | | 4,490 | | 3,590 | |
| Other debtors | | 1,074 | | 785 | | 774 | |
| | | | 13,386 | | 11,914 | | 10,553 |
| Other assets | | | | | | | |
| Tangible assets | | 28 | | 24 | | 24 | |
| Cash at bank and in hand | 10 | 10,369 | | 9,408 | | 9,995 | |
| Other | | 39 | | 24 | | 9 | |
| | | | 10,436 | | 9,456 | | 10,028 |
| Prepayments and accrued income | | | | | | | |
| Accrued interest and rent | | 31 | | 37 | | 71 | |
| Deferred acquisition costs | | 3,798 | | 3,344 | | 3,231 | |
| Other prepayments and accrued income | | 299 | | 279 | | 184 | |
| | | | 4,128 | | 3,660 | | 3,486 |
| Total assets | | | 82,063 | | 77,167 | | 79,693 |
| Capital and reserves | | | | | | | |
| Members' funds at Lloyd's | 7 | 16,208 | | 14,814 | | 15,704 | |
| Members' balances | | 3,981 | | 3,519 | | 5,132 | |
| Members' assets (held severally) | | 20,189 | | 18,333 | | 20,836 | |
| Central reserves (mutual assets) | | 1,769 | | 1,735 | | 1,693 | |
| | | | 21,958 | | 20,068 | | 22,529 |
| Subordinated debt | | | 498 | | 324 | | 497 |
| Subordinated perpetual capital securities | | | 388 | | 388 | | 388 |
| Capital, reserves and subordinated debt and securities | | | 22,844 | | 20,780 | | 23,414 |
| Technical provisions | | | | | | | |
| Provision for unearned premiums | | 15,258 | | 13,895 | | 12,653 | |
| Claims outstanding | | 37,258 | | 36,519 | | 38,134 | |
| | | | 52,516 | | 50,414 | | 50,787 |
| Deposits received from reinsurers | | | 41 | | 58 | | 57 |
| Creditors | | | | | | | |
| Creditors arising out of direct insurance operations | | 526 | | 492 | | 499 | |
| Creditors arising out of reinsurance operations | | 4,033 | | 3,525 | | 2,945 | |
| Other creditors including taxation | | 1,553 | | 1,387 | | 1,475 | |
| | | | 6,112 | | 5,404 | | 4,919 |
| Accruals and deferred income | | | 550 | | 511 | | 516 |
| Total liabilities | | | 82,063 | | 77,167 | | 79,693 |

# Pro Forma Cash Flow Statement

**For the six months ended 30 June 2015**

| | Six months ended 30 June 2015 £m | Restated Six months ended 30 June 2014 £m | Restated Full year 2014 £m |
|---|---|---|---|
| Pro forma result for the period/year before tax | 1,194 | 1,652 | 3,052 |
| Depreciation | 6 | 3 | 5 |
| Realised and unrealised (gains)/losses and foreign exchange | (246) | 837 | (1,405) |
| Increase/(decrease) in technical provisions | 555 | 797 | 1,732 |
| (Increase)/decrease in debtors | (3,614) | (2,862) | (1,013) |
| Increase/(decrease) in creditors | 1,346 | 1,146 | 291 |
| Cash generated from operations | (759) | 1,573 | 2,662 |
| Interest paid | (42) | (30) | (54) |
| Tax paid | (11) | (10) | (21) |
| Net cash generated from operating activities | (812) | 1,533 | 2,587 |
| Cash flow from investing activities | | | |
| Net (purchase)/sale of investments | 2,902 | 499 | (1,051) |
| Net return on funds at Lloyd’s | (76) | (120) | (202) |
| Net movement in funds at Lloyd’s | 470 | (344) | 581 |
| Cash flow from financing activities | | | |
| Net profits paid to members | (2,678) | (1,522) | (1,512) |
| Net capital transferred into/(out of) syndicate premium trust funds | 568 | 14 | 80 |
| Purchase of debt securities | – | – | 164 |
| Net increase/(decrease) in cash holdings | 374 | 60 | 647 |
| Cash holdings at beginning of period | 9,995 | 9,348 | 9,348 |
| Cash holdings at 30 June/31 December | 10,369 | 9,408 | 9,995 |

# Notes to the Interim Pro Forma Financial Statements

**As at 30 June 2015**

## 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 as closely as possible with those of general insurance companies.

## 2. Change in accounting policies

A number of changes have been made to the interim PFFS following the commencement of Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and Financial Reporting Standard 103 'Insurance Contracts' ('FRS 103'), together ('New UK GAAP'). This is the first period Lloyd's has presented the PFFS with changed accounting policies following the commencement of FRS 102 and FRS 103. The last PFFS under the previously extant UK GAAP were for the year ended 31 December 2014. The date of transition to the updated accounting policies described below was 1 January 2014.

The interim PFFS do not present a consolidated view of the results of Lloyd's business taken as a single entity. In particular, each managing agent selects the accounting policies most appropriate to its managed syndicates. The syndicates' financial information included in the interim PFFS has been prepared in accordance with the recognition and measurement requirements of New UK GAAP.

Where New UK GAAP permits different accounting policies and managing agents have adopted various accounting treatments, these are reflected in the interim PFFS without making consolidation adjustments. In addition, the PFFS do not eliminate inter-syndicate reinsurances (except for Special Purpose Syndicates ('SPS'), see below).

The consolidated financial information of the Society of Lloyd's, presented on pages 16 to 47, is prepared in accordance with International Financial Reporting Standards ('IFRS'). When included in the PFFS the Society of Lloyd's financial information is prepared in accordance with New UK GAAP. No adjustments have been made to the information incorporated into the Interim PFFS as we do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of New UK GAAP.

The Funds at Lloyd's accounting policy, presented below, is consistent with the 'fair value though profit and loss' accounting policy permitted under FRS 102. No measurement differences have arisen from the change in accounting policy for Funds at Lloyd's from the PFFS included within the 2014 annual report.

The recognition and measurement differences that have been recognised in the interim PFFS as a result of the changes in accounting policy set out above are disclosed in note 11. The comparative figures for the six month period ended 30 June 2014 and the financial year ended 31 December 2014 have been restated.

## 3. 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 financial statements of the Society of Lloyd's on pages 16 to 47. 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. 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 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 form the third link in Lloyd's Chain of Security.

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 statement of financial position in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Inter-syndicate reinsurances are not eliminated in the PFFS except for those between host syndicates and SPS. Overall, therefore, the PFFS aggregate the results and resources of the Society and its members and reflect 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 statement of financial position includes the tax provisions in the Society Group interim financial statements.

# Notes to the Interim Pro Forma Financial Statements
*continued*

**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 statement of financial position.

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 9):

- 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 Group 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 calls are reported as a profit and loss charge and statement of financial position 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.
- Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society Group interim financial statements.

**Special purpose syndicates**
Due to the nature of Special Purpose Syndicates, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPS annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the PFFS with a more meaningful presentation of the market's figures, all the reinsurance transactions of the SPS have been eliminated. The key impact of this elimination is that gross written premium is reduced by £309m (June 2014: £339m, December 2014: £567m). The elimination does not affect the PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

**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 statement of financial position.

# Notes to the Interim Pro Forma Financial Statements
*continued*

## 4. Accounting policies notes

**A. Syndicate returns**
The syndicate level information within the PFFS has been prepared in accordance with the recognition and measurement requirements of FRS 102 and FRS 103. As described in note 2 above, from 1 January 2014 syndicates transitioned to accounting policies aligned to FRS 102 and FRS 103 from previously extant UK GAAP. The accounting policies adopted under FRS 102 and FRS 103 as regards underwriting transactions, are generally consistent with those under previous UK GAAP, and hence are generally consistent with the accounting policies adopted for the PFFS in 2014. The key exception is in relation to accounting for foreign currency translation. The impact of this change in accounting policy is disclosed in note 11.

**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 statement of financial position 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 statement of financial position date or the last trading day before that date.

Members that only participate in one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust fund. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account. These policies are consistent with those adopted in the 2014 Annual Report.

**C. Society of Lloyd's**

The accounting policies adopted in the Society of Lloyd's financial statements are in accordance with International Financial Reporting Standards ('IFRS') and are consistent with those adopted in the 2014 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.

## 5. Variability

Movements in reserves are based upon best estimates as at 30 June 2015 taking into account all available information as at the statement of financial position 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.

## 6. 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 2015, the results for that business have also been reported as discontinued in the 2014 comparative figures.

## 7. Members' funds at Lloyd's

The valuation of members' FAL in the statement of financial position totals £16,208m (June 2014: £14,814m, December 2014: £15,704m). The notional investment return on FAL included in the non-technical profit and loss account totals £76m (June 2014: £120m, December 2014: £202m).

## 8. 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 £163m (June 2014: £149m, December 2014: £219m) in the technical account and a net loss of £90m (June 2014: £49m, December 2014: £121m) in the non-technical account.

# Notes to the Interim Pro Forma Financial Statements
*continued*

## 9. Aggregation of results and net assets

A reconciliation between the results, statement of total comprehensive income 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 2015 £m | Six months ended 30 June 2014 £m | Full year 2014 £m |
|---|---|---|---|
| Result per syndicate returns as originally reported | 1,045 | 1,447 | 2,861 |
| Impact of transition to FRS 102 & FRS 103 (see note 11) | – | (15) | (109) |
| Restated result per syndicate returns | 1,045 | 1,432 | 2,752 |
| Result of the Society | 83 | 100 | 91 |
| Central Fund claims and provisions charged in Society financial statements | – | 6 | 1 |
| Central Fund recoveries from insolvent members | – | (1) | (9) |
| Taxation charge in Society financial statements | 21 | 27 | 18 |
| Notional investment return on members' funds at Lloyd's | 76 | 120 | 202 |
| Society income not accrued in syndicate returns | (31) | (32) | (3) |
| Result on ordinary activities pre-tax | 1,194 | 1,652 | 3,052 |

| | Six months ended 30 June 2015 £m | Six months ended 30 June 2014 £m | Full year 2014 £m |
|---|---|---|---|
| Result for the period | 1,194 | 1,652 | 3,052 |
| Impact of transition to FRS 102 & FRS 103 through OCI | – | 27 | 16 |
| Other comprehensive income per syndicate returns | (57) | (67) | 135 |
| Other comprehensive income per Society financial statements | (7) | – | (33) |
| Total comprehensive income | 1,130 | 1,612 | 3,170 |

| | Six months ended 30 June 2015 £m | Six months ended 30 June 2014 £m | Full year 2014 £m |
|---|---|---|---|
| Net assets per syndicate returns | 4,011 | 3,443 | 5,191 |
| Impact of transition to FRS 102 & FRS 103 (see note 11) | – | 89 | (57) |
| Restated net assets per syndicate returns | 4,011 | 3,532 | 5,134 |
| 'Equity' of the Society | 1,769 | 1,735 | 1,693 |
| Central Fund claims and provisions in Society Group financial statements | 6 | 11 | 6 |
| Members' funds at Lloyd's | 16,208 | 14,814 | 15,704 |
| Unpaid cash calls and undistributed profits reanalysed to members' balances | 12 | 22 | 9 |
| Society income receivable not accrued in syndicate annual accounts | (48) | (46) | (17) |
| Capital and reserves per PFFS | 21,958 | 20,068 | 22,529 |

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 3.

# Notes to the Interim Pro Forma Financial Statements
*continued*

## 10. 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 £8,053m (June 2014: £7,196m, December 2014: £7,864m).

## 11. Transition to FRS 102 and FRS 103

The syndicate returns are prepared under UK GAAP. On 1 January 2015 syndicates transitioned to the recognition and measurement requirements of FRS 102 and FRS 103 from previously extant UK GAAP.

**The impact from the transition to FRS 102 and FRS 103 is as follows:**

Reconciliation of result for the period

| | Six months ended 30 June 2014 (restated) £m | Full year 2014 (restated) £m |
|---|---|---|
| Profit on ordinary activities before tax under previous UK GAAP | 1,667 | 3,161 |
| Foreign exchange under SSAP 20 | (19) | 25 |
| Foreign exchange under FRS 23 | 4 | (134) |
| Restated profit on ordinary activities before tax | 1,652 | 3,052 |

Reconciliation of members' assets and central reserves

| | Six months ended 30 June 2014 (restated) £m | Full year 2014 (restated) £m |
|---|---|---|
| Members' assets and central reserves under previous UK GAAP | 20,007 | 22,586 |
| Foreign exchange under SSAP 20 | – | – |
| Foreign exchange under FRS 23 | 89 | (57) |
| Restated members' assets and central reserves | 20,096 | 22,529 |

**Foreign exchange under SSAP 20**
For accounting periods up to and including 31 December 2014, a number of syndicates had adopted Statement of Standard Accounting Practice No 20 ('SSAP 20') (Foreign currency translation) as the basis on which they accounted for foreign currency translation. SSAP20 permitted 'branch' accounting with exchange movements being reported as adjustments to reserves. In accordance with FRS 103 all exchange differences have been reported in the non-technical account.

**Foreign exchange under FRS 23**
For accounting periods up to and including 31 December 2014, a number of syndicates had adopted FRS 23 (The Effect of Changes in Foreign Exchange Rates) as the basis on which they accounted for foreign currency translation. On this basis, some balances arising from foreign currency denominated insurance contracts were treated as non-monetary items, and so were not retranslated at closing rates. FRS 103 requires an entity to treat all assets and liabilities arising from an insurance contract as monetary items.

**Statement of financial position – cash at bank and in hand**
The transition to FRS 102 has impacted the amount reported as cash at bank and in hand. Under FRS 102 this now includes financial assets with a maturity of 90 days or less. Such assets that were previously reported under financial investments are now reported as cash at bank and in hand. This has resulted in an increase in cash at bank and in hand and decrease in financial investments of £282m as at 30 June 2014 and £143m as at 31 December 2014.

# Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2015 Lloyd's Interim Pro Forma Financial Statements

## Our conclusion

We have reviewed the preparation of the Lloyd's interim pro forma financial statements defined below, for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the interim pro forma financial statements are not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 by the Council of Lloyd's.

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

## What we have reviewed

The interim pro forma financial statements, which are prepared by the Council of Lloyd's, comprise:

- the pro forma statement of financial position as at 30 June 2015;
- the pro forma profit and loss account for the period then ended;
- the pro forma statement of comprehensive income for the period then ended;
- the pro forma cash flow statement for the period then ended; and
- the related notes 1 to 11 which have been prepared on the basis set out in note 3.

The interim pro forma financial statements have been compiled in part from an aggregation of financial information extracted from the profit and loss accounts, statements of total comprehensive income, statements of financial position, cash flow statements and related notes included in syndicates' Quarterly Monitoring Return A – Quarter 2 2015 (the interim return), prepared by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have given a limited assurance conclusion, in accordance with International Standard on Review Engagements, ISRE 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our work did not involve assessing the quality of those reviews nor performing any audit or review procedures over the financial information of the syndicates.

## What a review of a pro forma interim set of financial statements involves

We conducted our review in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', which consisted principally of making enquiries to obtain an understanding of how the Council of Lloyd's has compiled the interim pro forma financial statements from the syndicate interim returns and the Society of Lloyd's condensed interim financial statements, how the Funds at Lloyd's have been valued, and the nature of adjustments made to this information in the preparation of the interim pro forma financial statements, in order to assess whether any material modifications are required to the interim pro forma financial statements in order to prepare them in accordance with the basis of preparation set out in note 3. The engagement also involves evaluating the overall presentation of the interim pro forma financial statements.

Our work was designed to provide limited assurance upon the preparation of the interim pro forma financial statements and therefore the extent of our evidence gathering procedures are less than would be performed for an engagement to give reasonable assurance upon the preparation of the interim pro forma financial statements.

## Responsibilities for the pro forma set of interim financial statements and the review

**Our responsibilities and those of the Council of Lloyd's**
The Council of Lloyd's is responsible for preparing the interim pro forma financial statements in accordance with the basis of preparation set out in note 3. The purpose of the interim pro forma financial statements is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the interim financial reports of general insurance companies.

Our responsibility is to undertake procedures to express a conclusion on whether the Council of Lloyd's has not prepared the interim pro forma financial statements, in all material respects, in accordance with the basis of preparation set out in note 3.

This report is made solely to the Council of Lloyd's in accordance with our engagement letter dated 25 August 2015 (the instructions). Our review has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any 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
9 September 2015

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# SOCIETY REPORT

# Society of Lloyd's Group Interim Review

## Financial review

### Operating surplus

The Society of Lloyd's achieved an operating surplus for the period of £102m (June 2014: £97m).
The operating surplus by business segment is set out below:

| | Corporation of Lloyd's £m | Lloyd's Central Fund £m | Six months ended 30 June 2015 £m | Restated Six months ended 30 June 2014 £m |
|---|---|---|---|---|
| Total income | 115 | 106 | 221 | 207 |
| Central Fund claims and provisions | – | – | – | (6) |
| Other Group operating expenses | (114) | (5) | (119) | (104) |
| Operating surplus | 1 | 101 | 102 | 97 |

### Corporation of Lloyd's

Total income for the Corporation increased to £115m during the first half of 2015 (June 2014: £106m). Within this, subscription income increased in line with the level of premium written, whilst the subscription rate remained unchanged at 0.5%. In aggregate other income streams also increased compared to the prior period, reflecting the expansion of our global network, higher level of 'user pays' charges where costs incurred on behalf of specific managing agents are recharged directly to the individual agent and rental income from higher box capacity.

Other Group operating expenses increased to £114m (June 2014: £100m), reflecting the increased investment in the strategic priorities, notably global market access and making it easier to do business at Lloyd's, and the higher level of 'user pays' charges.

### Lloyd's Central Fund

Total income for the Central Fund increased to £106m (June 2014: £101m). Contribution income increased in line with the level of written premium, while the contribution rate remained unchanged for 2015 at 0.5%.

There was a net charge for the period of £nil (June 2014: £6m) in respect of claims arising within the fund. Undertakings to meet the liabilities of insolvent members to policyholders are approved, on an annual basis, at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During the period, payments made in respect of insolvent corporate members were £nil (June 2014: £6m).

Excluding the impact of foreign exchange, other Group operating expenses are in line with the prior period.

# Society of Lloyd's Group Interim Review
*continued*

## Investment performance

| | Six months ended 30 June 2015 £m | Six months ended 30 June 2014 £m |
|---|---|---|
| Finance costs | (27) | (23) |
| Finance income | 26 | 42 |
| Realised/unrealised exchange gains on borrowings | – | 7 |
| | (1) | 26 |

The Society's gross investment return was £26m, or 0.9% during the period (June 2014: £42m, 1.7%). Most of the Society's investments are held within the Central Fund where investment in equity and other growth assets is combined with a larger share of more conservative cash and fixed interest assets to maximise return and diversify risk over the long term.

Economic conditions generally improved over the first half of 2015, however, the Greek debt crisis took centre stage in June with heightened volatility causing a set-back to investment returns as equity markets fell. Central Fund equity and other growth investments still generated a positive return over the period, as did fixed interest and cash assets. The disposition of the Society's financial investments is set out in note 9 on pages 37 to 38.

Finance costs, which primarily consist of interest arising on subordinated notes and capital securities, increased to £27m (June 2014: £23m) following the net issuance of debt securities in the prior period.

Taking the above factors into account, net investment losses during the period were £1m (June 2014: gain of £26m).

**Results summary**
Overall, the surplus after tax for the six months to June 2015 was £83m (June 2014: a surplus of £100m). The net assets of the Society increased by £76m in the six months to June 2015 to £1,769m.

**Going Concern Statement**
After making enquiries and considering management's assessment of the financial position of the Society including forecast and stress tests undertaken on the Chain of Security, the members of the Council of Lloyd's have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Society's financial statements.

The Chain of Security is discussed in more detail in 'How Lloyd's works' on page 14 and in 'Security underlying policies issued at Lloyd's' on pages 70-72 of the Society of Lloyd's 2014 Annual Report.

# 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 34 of the Society of Lloyd's 2014 Annual Report under the heading 'Risk Management' within the strategic report.

The principal risks and uncertainties are:

- Failure to obtain Solvency II internal model approval;
- Failure to implement Lloyd's long term strategic objectives;
- Underwriting losses or capital erosion as a result of failing to effectively manage the insurance cycle;
- The unstable economic, financial and political climate;
- Significant regulatory change occurring across multiple jurisdictions;
- Catastrophe exposure;
- Strategic threats (for example from changes in the distribution landscape and the influx of non-traditional capital entering the market);
- Potential failure of key outsource service providers.

The status of these risks is monitored by the Risk Committee and Franchise Board on at least a quarterly basis through the Own Risk Solvency Assessment (ORSA) process.

The principal risks and uncertainties have not changed materially since the date of the 2014 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 EU which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2015.
- The statement from the Chairman and Chief Executive and the Society of Lloyd's Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements.
- The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year.
- The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

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

On behalf of the Council of Lloyd's:

| **John Nelson** | **Inga Beale** |
|---|---|
| Chairman | Chief Executive Officer |

9 September 2015

# Group Income Statement

**For the six months ended 30 June 2015**

| | Note | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|---|
| Operating income | | 114,935 | 107,013 | 219,864 |
| Central Fund contributions | 3(I) | 104,179 | 98,750 | 101,971 |
| General insurance net premium income | | 5 | 1 | 4 |
| Other Group income | | 2,354 | 1,423 | 13,632 |
| Total income | | 221,473 | 207,187 | 335,471 |
| Central Fund claims and provisions incurred | 3(II) | (14) | (5,800) | (812) |
| Central Fund repayment | | – | – | (48,995) |
| Gross insurance claims | | (13,191) | (5,987) | (13,841) |
| Insurance claims recoverable from reinsurers | | 13,191 | 5,987 | 14,360 |
| Other Group operating expenses | | (119,770) | (104,598) | (227,260) |
| Operating surplus | | 101,689 | 96,789 | 58,923 |
| Finance costs | | | | |
| Deficit on subordinated debt repurchase | 4A | – | – | (8,929) |
| Other | 4A | (26,764) | (22,703) | (48,920) |
| Finance income | 4B | 26,318 | 42,010 | 93,523 |
| Realised/unrealised exchange gains on borrowings | | – | 6,674 | 6,864 |
| Share of profits of associates | | 3,135 | 3,421 | 7,577 |
| Surplus before tax | | 104,378 | 126,191 | 109,038 |
| Tax charge | 5 | (21,447) | (25,796) | (17,543) |
| Surplus for the period/year | | 82,931 | 100,395 | 91,495 |

# Group Statement of Comprehensive Income

**For the six months ended 30 June 2015**

| | Note | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|---|
| Surplus for the period/year | | 82,931 | 100,395 | 91,495 |
| Other comprehensive income | | | | |
| Items that will not be reclassified to profit or loss | | | | |
| Remeasurement (losses)/gains on pension asset/liabilities | | | | |
| UK | 6 | (7,474) | (12) | (47,284) |
| Overseas | | – | – | (780) |
| Associates | | (595) | 177 | (1,192) |
| Tax credit/(charge) relating to items that will not be reclassified | 5 | 1,618 | (39) | 9,713 |
| Currency translation differences | | (544) | (769) | 6,202 |
| Net other comprehensive deficit for the period/year | | (6,995) | (643) | (33,341) |
| Total comprehensive income for the period/year | | 75,936 | 99,752 | 58,154 |

# Group Statement of Financial Position

**As at 30 June 2015**

| | Note | 30 June 2015 £000 | Restated 30 June 2014 £000 | 31 December 2014 (audited) £000 |
|---|---|---|---|---|
| Assets | | | | |
| Intangible assets | 7 | 10 | 28 | 18 |
| Lloyd's Collection | | 12,506 | 12,506 | 12,506 |
| Plant and equipment | 8 | 15,896 | 12,171 | 11,737 |
| Deferred tax asset | | 22,423 | 8,074 | 19,178 |
| Investment in associates | | 3,444 | 4,875 | 7,958 |
| Insurance contract assets | | 55,601 | 45,530 | 43,944 |
| Loans recoverable | 11 | 45,027 | 43,953 | 46,439 |
| Financial investments | 9 | 3,041,942 | 2,803,392 | 2,972,391 |
| Inventories | | 306 | 282 | 280 |
| Trade and other receivables due within one year | | 79,196 | 57,380 | 52,878 |
| Prepayments and accrued income | | 25,235 | 26,523 | 25,818 |
| Derivative financial instruments | | 10,510 | 20,539 | 17,774 |
| Cash and cash equivalents | | 291,715 | 324,559 | 261,587 |
| Total assets | | 3,603,811 | 3,359,812 | 3,472,508 |
| | | | | |
| Equity and liabilities | | | | |
| Equity | | | | |
| Accumulated reserve | | 1,746,216 | 1,718,305 | 1,669,736 |
| Revaluation reserve | | 12,506 | 12,506 | 12,506 |
| Translation Reserve | | 10,531 | 4,104 | 11,075 |
| Total equity | | 1,769,253 | 1,734,915 | 1,693,317 |
| | | | | |
| Liabilities | | | | |
| Subordinated notes and perpetual subordinated capital securities | 10 | 885,749 | 712,160 | 885,483 |
| Insurance contract liabilities | | 55,629 | 46,031 | 43,971 |
| Pension liabilities | 6 | 97,121 | 35,988 | 86,045 |
| Provisions | | 36,615 | 42,063 | 34,030 |
| Loans funding statutory insurance deposits | | 430,018 | 488,786 | 472,136 |
| Trade and other payables | | 196,592 | 177,444 | 184,991 |
| Accruals and deferred income | | 100,737 | 93,076 | 42,393 |
| Tax payable | | 20,808 | 25,682 | 8,681 |
| Derivative financial instruments | | 11,289 | 3,667 | 21,461 |
| Total liabilities | | 1,834,558 | 1,624,897 | 1,779,191 |
| Total equity and liabilities | | 3,603,811 | 3,359,812 | 3,472,508 |

Approved and authorised for issue by the Council of Lloyd's on 9 September 2015 and signed on its behalf by:

**John Nelson**
Chairman

**Inga Beale**
Chief Executive Officer

# Group Statement of Changes in Equity

**For the six months ended 30 June 2015**

| | Accumulated reserve £000 | Revaluation reserve £000 | Translation reserve £000 | Total equity £000 |
|---|---|---|---|---|
| At 1 January 2014 (as previously reported) | 1,650,818 | 12,506 | – | 1,663,324 |
| Impact of restatement (note 2) | (33,034) | – | 4,873 | (28,161) |
| At 1 January 2014 (as restated) | 1,617,784 | 12,506 | 4,873 | 1,635,163 |
| Surplus for the period (as restated) | 100,395 | – | – | 100,395 |
| Net other comprehensive income/(deficit) for the period (as restated) | 126 | – | (769) | (643) |
| At 30 June 2014 (as restated) | 1,718,305 | 12,506 | 4,104 | 1,734,915 |
| Deficit for the period | (8,900) | – | – | (8,900) |
| Net other comprehensive (deficit)/income for the period | (39,669) | – | 6,971 | (32,698) |
| At 31 December 2014 | 1,669,736 | 12,506 | 11,075 | 1,693,317 |
| Surplus for the period | 82,931 | – | – | 82,931 |
| Net other comprehensive deficit for the period | (6,451) | – | (544) | (6,995) |
| At 30 June 2015 | 1,746,216 | 12,506 | 10,531 | 1,769,253 |

# Group Statement of Cash Flows

**For the six months ended 30 June 2015**

| | Note | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|---|
| Cash generated from operations | 12 | 167,028 | 186,408 | 112,063 |
| Tax paid | | (11,075) | (10,114) | (20,511) |
| Net cash generated from operating activities | | 155,953 | 176,294 | 91,552 |
| Cash flows from investing activities | | | | |
| Purchase of plant, equipment and intangible assets | | (9,815) | (153) | (2,212) |
| Proceeds from the sale of plant, equipment and intangible assets | | 1 | – | – |
| Purchase of financial investments | | (1,397,038) | (1,721,132) | (3,223,986) |
| Receipts from the sale of financial investments | | 1,348,833 | 1,877,416 | 3,212,570 |
| Increase in short term deposits | 9B | (37,165) | (183,208) | (96,998) |
| Dividends received from associates | | 7,182 | 6,580 | 6,580 |
| Interest received | | 20,512 | 37,511 | 51,259 |
| Dividends received | 4 | 4,003 | 4,069 | 6,828 |
| Realised gains/(losses) on settlement of derivative financial instruments | | 22,401 | 32,771 | (6,499) |
| Net cash (used in)/generated from investing activities | | (41,086) | 53,854 | (52,458) |
| Cash flows from financing activities | | | | |
| Repurchase of subordinated notes | | – | – | (328,630) |
| Interest paid on subordinated notes | | (29,091) | (29,090) | (48,769) |
| Issue of subordinated notes | | – | – | 492,893 |
| Issue costs in related to subordinated notes | | (121) | – | – |
| Other interest paid | | (12,449) | (565) | (5,286) |
| Decrease in borrowings for statutory insurance deposits | | (42,819) | (30,598) | (39,549) |
| Net cash (used in)/generated from financing activities | | (84,480) | (60,253) | 70,659 |
| Net increase in cash and cash equivalents | | 30,387 | 169,895 | 109,753 |
| Effect of exchange rates on cash and cash equivalents | | (259) | 3,390 | 560 |
| Cash and cash equivalents at 1 January | | 261,587 | 151,274 | 151,274 |
| Cash and cash equivalents at 30 June/31 December | | 291,715 | 324,559 | 261,587 |

# Notes to the Group Interim Financial Statements

**As at 30 June 2015**

### 1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council of Lloyd's on 9 September 2015. 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 2015 and 30 June 2014 (as restated) are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2015, is set out on page 47.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2014 prepared under IFRS as adopted by the EU. Their report was included in the Annual Report 2014 which was published on 26 March 2015 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

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

The accounting policies, except for the adoption of the amendments to the International Accounting Standards (IAS) that became effective as of 1 January 2015 as stated below, are consistent with those adopted for the Society of Lloyd's Annual Report 2014, which was approved on 25 March 2015. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

On 1 January 2015, the application of the following standards became compulsory for entities reporting in the European Union. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the Group interim financial statements. The nature and impact of each new standard or amendment is described below:

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This is consistent with the Society's current accounting policy, and thus this amendment does not impact the Group interim financial statements.

**Annual Improvements 2010-2012 Cycle**
These improvements are effective from 1 July 2014 and include amendments to the following standards:

- IFRS 2 Share Based Payment – amends the definition of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). This amendment does not impact the Group interim financial statements;

- IFRS 3 Business Combination – clarifies that all contingent consideration arrangements that are classified as assets or liabilities arising from a business combination should be subsequently measured at fair value through profit or loss at each reporting date. This amendment does not impact the Group interim financial statements;

- IFRS 8 Operating Segments – clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria to operating segments; also clarifies that reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported regularly. The description of aggregation criteria is already disclosed in note 3 of the Group interim financial statements.

# Notes to the Group Interim Financial Statements
*continued*

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

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – clarifies that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount of the asset. The Society did not record any revaluation adjustments as at 30 June 2015.

- IAS 24 Related Party Disclosures – clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The Society did not receive any management services from other entities, thus, this amendment does not impact the Group interim financial statements.

**Annual Improvements 2011-2013 Cycle**
These improvements are effective from 1 July 2014 and include amendments to the following standards:

- IFRS 3 Business Combination – clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. Although the Group interim financial statements reflects its share of the results of operations of its investment in a joint venture, the Society is not a joint arrangement, and so this amendment is not applicable to the Group interim financial statements.

- IAS 40 Investment Property – clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The Society does not report any investment property within the Group interim financial statements.

The Corporation's policy for measuring balances for insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for insurance contracts issued by Lloyd's Insurance Company (China) Limited (LICCL), balances are calculated in accordance with People's Republic of China Generally Accepted Accounting Principles (PRC GAAP). In particular, unearned premium reserves are calculated after deducting acquisition costs such as commissions, handling fees, business taxes, surcharges and regulatory charges and outstanding claims reserves include a risk margin.

Following a review of future capital expenditure requirements in 2014, the Society changed its accounting for contractual capital expenditure under fully repairing leases. Under the previous basis, contractual expenditure was capitalised as plant and equipment and depreciated over the estimated useful life of the asset. Under the revised basis of accounting, contractual capital expenditure is provided for over the term of the underlying lease agreement. The Society believes the new basis provides reliable and more relevant information and in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change has been made retrospectively and the comparatives have been restated accordingly. The impact of the change for the period ended 30 June 2014 is a decrease in plant and equipment of £14m, an increase in deferred tax asset of £2m, an increase in provisions of £17m and a decrease in the accumulated reserves of £32m.

During 2014, the Society revised its accounting for foreign currency translation of overseas operations from recognising exchange differences within the Group income statement to recognition within the Group statement of other comprehensive income. The Society believes the new basis provides reliable and more relevant information and in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change has been made retrospectively and the comparatives have been restated accordingly. This resulted in a reclassification from accumulated reserves to a separate translation reserve within total equity of £4m for the period ended 30 June 2014.

# Notes to the Group Interim Financial Statements
*continued*

## 3. Segmental analysis

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

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

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

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

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

The Society's primary business segments are as follows:

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

(b) Lloyd's Central Fund: these funds comprising the New Central Fund and Old Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of the policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas. Central Fund contributions are recognised in full during the first half of the year.

# Notes to the Group Interim Financial Statements
*continued*

### 3. Segmental analysis continued

| A) Information by business segment | Note | Six months ended 30 June 2015<br>Corporation of Lloyd's<br>£000 | Lloyd's Central Fund<br>£000 | Society total<br>£000 |
|---|---|---|---|---|
| Segment income | | | | |
| Total income | | 115,079 | 106,394 | 221,473 |
| Segment operating expenses | | | | |
| Central Fund claims and provisions incurred | 3(II) | – | (14) | (14) |
| Gross claims incurred | | (13,191) | – | (13,191) |
| Insurance claims recoverable from reinsurers | | 13,191 | – | 13,191 |
| Other Group operating expenses: | | | | |
| Employment (including pension costs) | | (59,402) | – | (59,402) |
| Premises | | (18,529) | – | (18,529) |
| Legal and professional | | (10,932) | (231) | (11,163) |
| Systems and communications | | (12,238) | – | (12,238) |
| Other | | (13,502) | (4,936) | (18,438) |
| Total other Group operating expenses | | (114,603) | (5,167) | (119,770) |
| Total segment operating expenses | | (114,603) | (5,181) | (119,784) |
| Total segment operating surplus | | 476 | 101,213 | 101,689 |
| Finance costs | 4A | (19) | (26,745) | (26,764) |
| Finance income | 4B | 2,303 | 24,015 | 26,318 |
| Share of profits of associates | | 3,135 | – | 3,135 |
| Segment surplus before tax | | 5,895 | 98,483 | 104,378 |
| Tax charge | | | | (21,447) |
| Surplus for the period | | | | 82,931 |
| Segment assets and liabilities | | | | |
| Investment in associates | | 3,444 | – | 3,444 |
| Other assets | | 952,981 | 2,624,963 | 3,577,944 |
| Segment assets | | 956,425 | 2,624,963 | 3,581,388 |
| Tax assets | | | | 22,423 |
| Total assets | | | | 3,603,811 |
| Segment liabilities | | (864,577) | (949,173) | (1,813,750) |
| Tax liabilities | | | | (20,808) |
| Total liabilities | | | | (1,834,558) |

# Notes to the Group Interim Financial Statements
*continued*

### 3. Segmental analysis continued

| A) Information by business segment continued | Note | Restated Six months ended 30 June 2014 Corporation of Lloyd's £000 | Lloyd's Central Fund £000 | Society total £000 |
|---|---|---|---|---|
| Segment income | | | | |
| Total income | | 106,425 | 100,762 | 207,187 |
| Segment operating expenses | | | | |
| Central Fund claims and provisions incurred | 3(II) | – | (5,800) | (5,800) |
| Gross claims incurred | | (5,987) | – | (5,987) |
| Insurance claims recoverable from reinsurers | | 5,987 | – | 5,987 |
| Other Group operating expenses: | | | | |
| Employment (including pension costs) | | (49,641) | – | (49,641) |
| Premises | | (21,298) | – | (21,298) |
| Legal and professional | | (7,822) | (252) | (8,074) |
| Systems and communications | | (11,080) | – | (11,080) |
| Other | | (10,512) | (3,993) | (14,505) |
| Total other Group operating expenses | | (100,353) | (4,245) | (104,598) |
| Total segment operating expenses | | (100,353) | (10,045) | (110,398) |
| Total segment operating surplus | | 6,072 | 90,717 | 96,789 |
| Finance costs | 4A | (12) | (22,691) | (22,703) |
| Finance income | 4B | 1,058 | 40,952 | 42,010 |
| Realised/unrealised exchange gains on borrowings | | – | 6,674 | 6,674 |
| Share of profits of associates | | 3,421 | – | 3,421 |
| Segment surplus before tax | | 10,539 | 115,652 | 126,191 |
| Tax charge | | | | (25,796) |
| Surplus for the period | | | | 100,395 |
| Segment assets and liabilities | | | | |
| Investment in associates | | 4,875 | – | 4,875 |
| Other assets | | 941,907 | 2,404,956 | 3,346,863 |
| Segment assets | | 946,782 | 2,404,956 | 3,351,738 |
| Tax assets | | | | 8,074 |
| Total assets | | | | 3,359,812 |
| Segment liabilities | | (823,529) | (775,686) | (1,599,215) |
| Tax liabilities | | | | (25,682) |
| Total liabilities | | | | (1,624,897) |

# Notes to the Group Interim Financial Statements
*continued*

## 3. Segmental analysis continued

| A) Information by business segment continued | Note | Full year 2014 (audited) Corporation of Lloyd's £000 | Lloyd's Central Fund £000 | Society total £000 |
|---|---|---|---|---|
| Segment income | | | | |
| Total income | | 220,725 | 114,746 | 335,471 |
| Segment operating expenses | | | | |
| Central Fund claims and provisions incurred | 3(II) | – | (812) | (812) |
| Central Fund repayment | | – | (48,995) | (48,995) |
| Gross claims incurred | | (13,841) | – | (13,841) |
| Claims recoverable from reinsurers | | 14,360 | – | 14,360 |
| Other Group operating expenses: | | | | |
| Employment (including pension costs) | | (108,309) | – | (108,309) |
| Premises | | (42,226) | – | (42,226) |
| Legal and professional | | (19,711) | (1,023) | (20,734) |
| Systems and communications | | (23,563) | – | (23,563) |
| Other | | (24,276) | (8,152) | (32,428) |
| Total other Group operating expenses | | (218,085) | (9,175) | (227,260) |
| Total segment operating expenses | | (217,566) | (58,982) | (276,548) |
| Total segment operating surplus | | 3,159 | 55,764 | 58,923 |
| Finance costs | | | | |
| Deficit on subordinated debt repurchase | 4A | – | (8,929) | (8,929) |
| Other | 4A | (22) | (48,898) | (48,920) |
| Finance income | 4B | 2,859 | 90,664 | 93,523 |
| Realised/unrealised exchange gains on borrowings | | – | 6,864 | 6,864 |
| Share of profits of associates | | 7,577 | – | 7,577 |
| Segment surplus before tax | | 13,573 | 95,465 | 109,038 |
| Tax charge | | | | (17,543) |
| Surplus for the year | | | | 91,495 |
| Segment assets and liabilities | | | | |
| Investment in associates | | 7,958 | – | 7,958 |
| Other assets | | 883,684 | 2,561,688 | 3,445,372 |
| Segment assets | | 891,642 | 2,561,688 | 3,453,330 |
| Tax assets | | | | 19,178 |
| Total assets | | | | 3,472,508 |
| Segment liabilities | | (807,904) | (962,606) | (1,770,510) |
| Tax liabilities | | | | (8,681) |
| Total liabilities | | | | (1,779,191) |

# Notes to the Group Interim Financial Statements
*continued*

### 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 2015 £000 | Restated Six months ended 30 June 2014 £000 | Restated Full year 2014 (audited) £000 |
|---|---|---|---|
| Central Fund | | | |
| Net assets 1 January | 1,589,843 | 1,512,638 | 1,512,638 |
| Operating surplus | 102,054 | 91,523 | 57,394 |
| Intra-Group transactions | (841) | (806) | (1,631) |
| Net finance (cost)/income | (2,730) | 24,935 | 39,701 |
| Tax charge | (19,816) | (24,627) | (18,259) |
| Net assets as at 30 June/31 December | 1,668,510 | 1,603,663 | 1,589,843 |
| Corporation of Lloyd's and subsidiary undertakings | 100,743 | 131,252 | 103,474 |
| Net Society assets at 30 June/31 December | 1,769,253 | 1,734,915 | 1,693,317 |
| Subordinated notes | 497,259 | 323,670 | 496,993 |
| Perpetual subordinated capital securities | 388,490 | 388,490 | 388,490 |
| Net central assets excluding subordinated debt liabilities | 2,655,002 | 2,447,075 | 2,578,800 |

**(I) Central Fund contributions from members and Corporation of Lloyd's subscriptions**
During the six months ended 30 June 2015, members paid amounts 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 2015 will be based on actual 2015 written premiums, of members, the quantification of which will not be known until 2017. The £104m (Central Fund contributions) and £50m (subscriptions) included in the 2015 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.
On 24 September 2014, the Council approved the repayment of 0.25% of premiums written, arising from 2012 Year of Account Central Fund contributions, which amounted to £48m.

**(II) Central Fund claims and provisions**

| | Six months ended 30 June 2015 £000 | Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|
| Net undertakings granted | – | (5,800) | (800) |
| Claims payable in respect of individual members | (14) | – | (12) |
| Central Fund claims and provisions incurred | (14) | (5,800) | (812) |

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 2015, no undertakings were paid to corporate members (30 June 2014: £6m; 31 December 2014: £6m).

# Notes to the Group Interim Financial Statements
*continued*

## 4. Finance

| (A) Finance costs | Six months ended 30 June 2015 £000 | Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|
| Deficit on subordinated debt repurchase | – | – | (8,929) |
| Interest payable on financial liabilities measured at amortised cost | (26,358) | (24,377) | (50,262) |
| Other interest payable and similar charges | (19) | (11) | (22) |
| Amortisation of issue costs and discount | (387) | 1,685 | 1,364 |
| Total interest payable on financial liabilities | (26,764) | (22,703) | (57,849) |
| (B) Finance income | | | |
| Bank interest received | 4,032 | 1,703 | 5,316 |
| Dividends received | 4,003 | 4,069 | 6,828 |
| Gain on investments including unrealised movement of forward currency contracts | 17,475 | 34,106 | 76,036 |
| Movement in loans recoverable | 808 | 2,132 | 5,343 |
| Total finance income | 26,318 | 42,010 | 93,523 |

**(C) Subordinated debt repurchase**
During 2014, the Society of Lloyd's repurchased £148,696,000 of its Sterling 2004 subordinated notes at a cost of £157,625,000. The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £8,929,000. There are no further repurchase of debt securities during 2015.

## 5. Taxation

| A) Analysis of total tax charge | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|
| Current tax: | | | |
| Corporation tax based on profits for the period at 20.25% (2014: 21.5%) | (23,520) | (27,569) | (21,117) |
| Adjustments in respect of previous periods | 369 | (46) | 812 |
| Foreign tax suffered | (50) | (197) | (900) |
| Total current tax | (23,201) | (27,812) | (21,205) |
| Deferred tax: | | | |
| Origination and reversal of timing differences: | | | |
| Current year | 1,612 | 1,859 | 3,268 |
| Prior year | 142 | 157 | 394 |
| Tax charge recognised in the Group income statement | (21,447) | (25,796) | (17,543) |
| Analysis of tax credit/(charge) recognised in the Group statement | | | |
| of comprehensive income: | | | |
| Deferred tax: | | | |
| Tax charge on revaluations of overseas deferred tax | (5) | – | – |
| Tax credit/(charge) on actuarial loss on pension liabilities | | | |
| Group | 1,495 | 2 | 9,457 |
| Associates | 128 | (41) | 256 |
| Tax credit/(charge) recognised in the Group statement of comprehensive income | 1,618 | (39) | 9,713 |
| Total tax charge | (19,829) | (25,835) | (7,830) |

# Notes to the Group Interim Financial Statements
*continued*

## 5. Taxation continued

| B) Reconciliation of effective tax rate | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|
| Surplus on ordinary activities before tax | 104,378 | 126,191 | 109,038 |
| Corporation tax at 20.25% (2014: 21.5%) | (21,137) | (27,131) | (23,443) |
| Expenses not deductible for tax purposes | (561) | (234) | (334) |
| Utilisation of tax credits | – | 43 | 358 |
| Overseas tax | 211 | (197) | (900) |
| Other | 153 | 876 | 1,498 |
| Share of profits of associates | 635 | 736 | 1,629 |
| Deferred tax adjustment relating to the Lloyd's Collection | (860) | – | 2,688 |
| Deferred tax adjustments relating to change in tax rate | (22) | – | (274) |
| Deferred tax prior year adjustments | 144 | 157 | 423 |
| Adjustments in respect of previous years | (10) | (46) | 812 |
| Tax charge | (21,447) | (25,796) | (17,543) |

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

The deferred tax asset is based on a corporation tax rate of 20% (2014: 20%). Reductions to the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were announced in the Budget on 8 July 2015, however, these have not yet been substantively enacted.

## 6. Pension assets/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 19R 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2015 was £95m (30 June 2014: deficit of £35m; 31 December 2014: deficit of £84m) before the allowance of deferred tax. An actuarial loss of £7m has been recognised in the six months ended 30 June 2015 (30 June 2014: actuarial loss £12,000; 31 December 2014: actuarial loss £47m).

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 2015 is £2m (30 June 2014: £1m; 31 December 2014: £2m).

# Notes to the Group Interim Financial Statements
*continued*

## 7. Intangible assets – software development

| | Six months ended 30 June 2015 £000 |
|---|---|
| Cost: | |
| At 1 January 2014 | 4,834 |
| Additions | 9 |
| Disposals | (55) |
| At 30 June 2014 | 4,788 |
| Additions | 93 |
| Disposals | (147) |
| At 31 December 2014 | 4,734 |
| Additions | 118 |
| Disposals | (144) |
| At 30 June 2015 | 4,708 |
| Amortisation: | |
| At 1 January 2014 | 4,794 |
| Charge for the period | 20 |
| Disposals | (54) |
| At 30 June 2014 | 4,760 |
| Charge for the period | 101 |
| Disposals | (145) |
| At 31 December 2014 | 4,716 |
| Charge for the period | 93 |
| Disposals | (111) |
| At 30 June 2015 | 4,698 |
| Net book value at 30 June 2015 | 10 |
| Net book value at 31 December 2014 | 18 |
| Net book value at 30 June 2014 | 28 |

# Notes to the Group Interim Financial Statements
*continued*

## 8. Property, plant and equipment

| | Furniture and fittings £000 | Computer and specialised equipment £000 | Other £000 | Total £000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2014 as restated | 20,289 | 19,128 | 90 | 39,507 |
| Additions as restated | (85) | 229 | – | 144 |
| Transfer | 601 | (601) | – | – |
| Disposals | (392) | (109) | (2) | (503) |
| At 30 June 2014 as restated | 20,413 | 18,647 | 88 | 39,148 |
| Additions | 533 | 1,428 | 5 | 1,966 |
| Disposals | (544) | (1,488) | – | (2,032) |
| At 31 December 2014 | 20,402 | 18,587 | 93 | 39,082 |
| Additions | 8,904 | 786 | 6 | 9,696 |
| Disposals | (882) | (61) | (33) | (976) |
| At 30 June 2015 | 28,424 | 19,312 | 66 | 47,802 |
| Depreciation: | | | | |
| At 1 January 2014 as restated | 12,566 | 12,814 | 34 | 25,414 |
| Depreciation charge for the period as restated | 763 | 1,213 | 10 | 1,986 |
| Disposals | (316) | (106) | (1) | (423) |
| At 30 June 2014 as restated | 13,013 | 13,921 | 43 | 26,977 |
| Depreciation charge for the period | 1,020 | 1,225 | 13 | 2,258 |
| Disposals | (409) | (1,481) | – | (1,890) |
| At 31 December 2014 | 13,624 | 13,665 | 56 | 27,345 |
| Depreciation charge for the period | 3,892 | 1,155 | 10 | 5,057 |
| Disposals | (427) | (45) | (24) | (496) |
| At 30 June 2015 | 17,089 | 14,775 | 42 | 31,906 |
| Net book value at 30 June 2015 | 11,335 | 4,537 | 24 | 15,896 |
| Net book value at 31 December 2014 | 6,778 | 4,922 | 37 | 11,737 |
| Net book value at 30 June 2014 as restated | 7,400 | 4,726 | 45 | 12,171 |

The 30 June 2014 comparatives have been restated following a change in accounting for contractual capital expenditure and dilapidation cost under fully repairing lease. Further explanation and impact of the restatement are disclosed in note 2.

# Notes to the Group Interim Financial Statements
*continued*

## 9. Financial investments

| | 30 June 2015 £000 | 30 June 2014 £000 | 31 December 2014 (audited) £000 |
|---|---|---|---|
| Statutory insurance deposits | 440,870 | 494,039 | 477,494 |
| Other investments | 2,601,072 | 2,309,353 | 2,494,897 |
| | 3,041,942 | 2,803,392 | 2,972,391 |

### A) Statutory insurance deposits

| | 30 June 2015 | | | 30 June 2014 | 31 December 2014 (audited) |
|---|---|---|---|---|---|
| | Securities £000 | Deposits £000 | Total £000 | £000 | £000 |
| Market value at 1 January | 225,296 | 252,198 | 477,494 | 527,340 | 527,340 |
| Additions at cost | 273,952 | 414,651 | 688,603 | 585,759 | 1,107,404 |
| Disposal proceeds | (415,063) | (320,606) | (735,669) | (606,420) | (1,151,339) |
| Surplus/(deficit) on the sale and revaluation of investments | 4,477 | 5,965 | 10,442 | (12,640) | (5,911) |
| Market value | 88,662 | 352,208 | 440,870 | 494,039 | 477,494 |

| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 (audited) | |
|---|---|---|---|---|---|---|
| | Cost £000 | Valuation £000 | Cost £000 | Valuation £000 | Cost £000 | Valuation £000 |
| Analysis of government securities at period/year end: | 90,744 | 88,662 | 261,284 | 255,583 | 228,887 | 225,296 |

# Notes to the Group Interim Financial Statements
*continued*

## 9. Financial investments continued

### B) Other investments

| | 30 June 2015 | | | 30 June 2014 | 31 December 2014 (audited) |
|---|---|---|---|---|---|
| | Corporation of Lloyd's £000 | Lloyd's Central Fund £000 | Total £000 | Total £000 | Total £000 |
| Market value at 1 January | 137,437 | 2,357,460 | 2,494,897 | 2,265,658 | 2,265,658 |
| Additions at cost | – | 708,435 | 708,435 | 1,135,373 | 2,116,582 |
| Increase/(decrease) in short term deposits | 38,967 | (1,802) | 37,165 | 183,208 | 96,998 |
| Disposal proceeds | – | (613,164) | (613,164) | (1,270,996) | (2,061,231) |
| (Deficit)/surplus on the sale and revaluation of investments | – | (26,261) | (26,261) | (3,890) | 76,890 |
| Market value | 176,404 | 2,424,668 | 2,601,072 | 2,309,353 | 2,494,897 |
| | | | | | |
| Analysis of securities at period/year end: | | | | | |
| Listed securities: | | | | | |
| Fixed interest: | | | | | |
| Government | – | 900,070 | 900,070 | 556,215 | 806,012 |
| Corporate securities | – | 654,440 | 654,440 | 712,332 | 679,839 |
| Emerging markets | – | 65,901 | 65,901 | 77,685 | 68,859 |
| High yield | – | 49,656 | 49,656 | 41,637 | 49,192 |
| | – | 1,670,067 | 1,670,067 | 1,387,869 | 1,603,902 |
| Equities: | | | | | |
| Global | – | 453,881 | 453,881 | 411,778 | 451,092 |
| Emerging markets | – | 47,776 | 47,776 | 47,479 | 48,311 |
| | – | 501,657 | 501,657 | 459,257 | 499,403 |
| Total listed securities | – | 2,171,724 | 2,171,724 | 1,847,126 | 2,103,305 |
| Unlisted securities: | | | | | |
| Hedge funds | – | 136,402 | 136,402 | 125,040 | 134,855 |
| Loan Investments | – | 76,124 | 76,124 | 71,320 | 77,080 |
| Short term deposits | 176,404 | 20,418 | 196,822 | 245,867 | 159,657 |
| Security deposits | – | 20,000 | 20,000 | 20,000 | 20,000 |
| Total unlisted securities | 176,404 | 252,944 | 429,348 | 462,227 | 391,592 |
| Market value | 176,404 | 2,424,668 | 2,601,072 | 2,309,353 | 2,494,897 |

# Notes to the Group Interim Financial Statements
*continued*

## 10. Subordinated notes and perpetual subordinated capital securities

| | 30 June 2015 £000 | 30 June 2014 £000 | 31 December 2014 (audited) £000 |
|---|---|---|---|
| Details of loans payable wholly or partly after more than five years: | | | |
| 6.875% subordinated notes of £4.5m maturing 17 November 2025 (Sterling 2004 Notes) | 4,545 | 153,241 | 4,545 |
| 5.625% subordinated notes redeemed on 17 November 2014 (Euro 2004 Notes) | – | 171,196 | – |
| 4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes) | 500,000 | – | 500,000 |
| 7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017 | 392,013 | 392,013 | 392,013 |
| | 896,558 | 716,450 | 896,558 |
| Less issue costs to be charged in future years | (7,087) | (4,093) | (7,160) |
| Less discount on issue to be unwound in future years | (3,722) | (197) | (3,915) |
| | 885,749 | 712,160 | 885,483 |

**Subordinated debt repurchases**
During 2014, the Society of Lloyd's repurchased £148,696,000 of its Sterling 2004 subordinated notes at a cost of £157,625,000. The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £8,929,000.

The Euro 2004 Notes were redeemed on 17 November 2014.

The Sterling 2014 Notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.75% per annum, payable annually in arrears on 30 October in each year. There are no further repurchase of debt securities during 2015.

**Fair values**
The fair value (based on quoted offer prices) of subordinated debt is £945.3m (30 June 2014: £780.7m; 31 December 2014: £970.0m).

# Notes to the Group Interim Financial Statements
*continued*

## 11. Financial instruments

### Fair value hierarchy

| | | 30 June 2015 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| | Note | £000 | £000 | £000 | £000 |
| Financial investments at fair value through profit or loss | | | | | |
| Statutory insurance deposits | | | | | |
| Listed securities | | – | 3,015 | – | 3,015 |
| Unlisted securities | | – | 85,647 | – | 85,647 |
| Deposits with credit institutions | | – | 352,208 | – | 352,208 |
| Total statutory insurance deposits | 9A | – | 440,870 | – | 440,870 |
| Other investments | | | | | |
| Listed securities | | 1,015,627 | 654,440 | – | 1,670,067 |
| Equity investments | | 501,657 | – | – | 501,657 |
| Unlisted securities | | – | 212,526 | – | 212,526 |
| Deposits with credit institutions | | 216,822 | – | – | 216,822 |
| Total other investments | 9B | 1,734,106 | 866,966 | – | 2,601,072 |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | 4,681 | – | 4,681 |
| Other forward foreign exchange contracts | | – | 5,690 | – | 5,690 |
| Interest rate swaps | | – | 139 | – | 139 |
| Total derivative financial instruments | | – | 10,510 | – | 10,510 |
| Loans recoverable | | – | – | 45,027 | 45,027 |
| Total financial assets at fair value through profit or loss | | 1,734,106 | 1,318,346 | 45,027 | 3,097,479 |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | (5,155) | – | (5,155) |
| Other forward foreign exchange contracts | | – | (5,239) | – | (5,239) |
| Interest rate swaps | | – | (895) | – | (895) |
| Total derivative financial instruments | | – | (11,289) | – | (11,289) |
| Total financial liabilities at fair value through profit or loss | | – | (11,289) | – | (11,289) |

# Notes to the Group Interim Financial Statements
*continued*

## 11. Financial instruments continued

### Fair value hierarchy continued

| | | 30 June 2014 | | | |
|---|---|---|---|---|---|
| | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Financial investments at fair value through profit or loss | | | | | |
| Statutory insurance deposits | | | | | |
| Listed securities | | – | 2,992 | – | 2,992 |
| Unlisted securities | | – | 252,591 | – | 252,591 |
| Deposits with credit institutions | | – | 238,456 | – | 238,456 |
| Total statutory insurance deposits | 9A | – | 494,039 | – | 494,039 |
| Other investments | | | | | |
| Listed securities | | 675,537 | 712,332 | – | 1,387,869 |
| Equity investments | | 459,257 | – | – | 459,257 |
| Unlisted securities | | – | 196,360 | – | 196,360 |
| Deposits with credit institutions | | 265,867 | – | – | 265,867 |
| Total other investments | 9B | 1,400,661 | 908,692 | – | 2,309,353 |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | 2,716 | – | 2,716 |
| Other forward foreign exchange contracts | | – | 17,823 | – | 17,823 |
| Total derivative financial instruments | | – | 20,539 | – | 20,539 |
| Loans recoverable | | – | – | 43,953 | 43,953 |
| Total financial assets at fair value through profit or loss | | 1,400,661 | 1,423,270 | 43,953 | 2,867,884 |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | (2,817) | – | (2,817) |
| Other forward foreign exchange contracts | | – | (850) | – | (850) |
| Total derivative financial instruments | | – | (3,667) | – | (3,667) |
| Total financial liabilities at fair value through profit or loss | | – | (3,667) | – | (3,667) |

# Notes to the Group Interim Financial Statements
*continued*

## 11. Financial instruments continued

### Fair value hierarchy continued

| | Note | 31 December 2014 (audited) Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|---|
| Financial investments at fair value through profit or loss | | | | | |
| Statutory insurance deposits | | | | | |
| Listed securities | | – | 3,164 | – | 3,164 |
| Unlisted securities | | – | 222,132 | – | 222,132 |
| Deposits with credit institutions | | – | 252,198 | – | 252,198 |
| Total statutory insurance deposits | 9A | – | 477,494 | – | 477,494 |
| Other investments | | | | | |
| Listed securities | | 924,063 | 679,840 | – | 1,603,903 |
| Equity investments | | 499,403 | – | – | 499,403 |
| Unlisted securities | | – | 211,935 | – | 211,935 |
| Deposits with credit institutions | | 179,656 | – | – | 179,656 |
| Total other investments | 9B | 1,603,122 | 891,775 | – | 2,494,897 |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | 2,672 | – | 2,672 |
| Other forward foreign exchange contracts | | – | 12,292 | – | 12,292 |
| Interest rate swaps | | – | 2,810 | – | 2,810 |
| Total derivative financial instruments | | – | 17,774 | – | 17,774 |
| Loans recoverable | | – | – | 46,439 | 46,439 |
| Total financial assets at fair value through profit or loss | | 1,603,122 | 1,387,043 | 46,439 | 3,036,604 |
| Financial liabilities at fair value through profit or loss | | | | | |
| Derivative financial instruments | | | | | |
| Currency conversion service | | – | (3,069) | – | (3,069) |
| Other forward foreign exchange contracts | | – | (14,417) | – | (14,417) |
| Interest rate swaps | | – | (3,975) | – | (3,975) |
| Total derivative financial instruments | | – | (21,461) | – | (21,461) |
| Total financial liabilities at fair value through profit or loss | | – | (21,461) | – | (21,461) |

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

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

**Level 3**
Inputs to Level 3 fair values are inputs that are unobservable for the asset. Unobservable inputs have been used to measure fair value where unobservable 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*

## 11. Financial instruments continued

**Fair value hierarchy** continued
The Society's loans recoverable are categorised within Level 3 fair values for disclosure purposes.

| | 30 June 2015 | 30 June 2014 | 31 December 2014 (audited) |
|---|---|---|---|
| | £000 | £000 | £000 |
| Loans recoverable | | | |
| At 1 January | 46,439 | 43,499 | 43,499 |
| Recoveries during the period/year | (2,220) | (1,678) | (2,403) |
| Fair value movements recognised during the period/year | 808 | 2,132 | 5,343 |
| At 30 June/31 December | 45,027 | 43,953 | 46,439 |

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, Limited Financial Assistance Agreements and legal assets. Gains and losses arising from changes in the fair value are included in the Group income statement in the period in which they arise. The revaluation process is carried out twice a year at both interim and year end.

Fair values are determined by reference to an estimate of the valuation of the underlying securities at the dates at which they may be exercised and discounted back to present day values. The securities include both properties and hardship trust fund assets. A security can normally only be exercised on the later of the date of death of the member or of their spouse. This date is assessed using actuarial assumptions.

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2015.

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

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

As at 30 June 2015, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.4m (30 June 2014: £0.3m; 31 December 2014: £0.2m). This analysis assumes that all other variables, including inflationary increases and discount rates, remain the same.

# Notes to the Group Interim Financial Statements
*continued*

## 12. Cash generated from operations

| | Note | Six months ended 30 June 2015 £000 | Restated Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|---|
| Surplus before tax | | 104,378 | 126,191 | 109,038 |
| Finance cost – deficit on subordinated note repurchase | 4 | – | – | 8,929 |
| Net finance income | 4 | 446 | (19,307) | (44,603) |
| Unrealised exchange gains on borrowings | | – | (6,674) | (6,864) |
| Share of profits of associates | | (3,135) | (3,421) | (7,577) |
| Operating surplus | | 101,689 | 96,789 | 58,923 |
| Central Fund claims and provisions incurred | | 14 | 5,800 | 812 |
| Operating surplus before Central Fund claims and provisions | | 101,703 | 102,589 | 59,735 |
| Adjustments for: | | | | |
| Depreciation of plant and equipment | 8 | 5,057 | 1,986 | 4,244 |
| Amortisation of intangible assets | 7 | 93 | 20 | 121 |
| Losses on sale and revaluation of fixed assets | | 513 | 81 | 225 |
| Losses on investments | | (272) | (36,555) | (6,111) |
| Unrealised (losses)/gains on translation of foreign operations | | (544) | (769) | 6,202 |
| Foreign exchange losses/(gains) on operating activities | | 259 | (3,390) | (560) |
| Operating surplus before working capital changes and claims paid | | 106,809 | 63,962 | 63,856 |
| Changes in pension obligations | | 3,602 | 2,004 | 4,009 |
| (Increase)/decrease in receivables | | (25,967) | 9,015 | 17,816 |
| Increase in inventories | | (26) | (26) | (24) |
| Increase in payables | | 80,039 | 115,837 | 33,835 |
| Increase/(decrease) in provisions other than for Central Fund claims | | 2,585 | 1,416 | (1,629) |
| Cash generated from operations before claims paid | | 167,042 | 192,208 | 117,863 |
| Claims paid in respect of corporate/insolvent members | | (14) | (5,800) | (5,800) |
| Cash generated from operations | | 167,028 | 186,408 | 112,063 |

## 13. Commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £0.5m (30 June 2014: £0.2m (as restated); 31 December 2014: £nil (as restated)). Commitments also arise under the fully repairing operating leases. These are included within provisions shown in the Group statement of financial position on page 23.

# Notes to the Group Interim Financial Statements
*continued*

## 14. Related party transactions

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

Services provided to Ins-sure Holdings Limited in the period ended 30 June 2015 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited in the period ended 30 June 2015 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2015 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial periods/year together with information regarding the outstanding balances at 30 June 2015, 30 June 2014 and 31 December 2014.

| | Six months ended 30 June 2015 | Six months ended 30 June 2014 | Full year 2014 (audited) |
|---|---|---|---|
| | £000 | £000 | £000 |
| Sales to related parties | | | |
| Associates: | | | |
| Ins-sure Holdings Limited | 140 | 148 | 291 |
| Xchanging Claims Services Limited | 45 | 40 | 102 |
| Joint venture: | | | |
| The Message Exchange Limited | – | – | – |
| Purchases from related parties | | | |
| Associates: | | | |
| Ins-sure Holdings Limited | 1,557 | 1,882 | 2,972 |
| Xchanging Claims Services Limited | – | – | – |
| Joint venture: | | | |
| The Message Exchange Limited | 251 | 637 | 1,076 |
| Amounts owed by related parties | | | |
| Associates: | | | |
| Ins-sure Holdings Limited | 9 | 8 | 4 |
| Xchanging Claims Services Limited | 5 | 3 | 3 |
| Joint venture: | | | |
| The Message Exchange Limited | – | 31 | 31 |
| Amounts owed to related parties | | | |
| Associates: | | | |
| Ins-sure Holdings Limited | – | 22 | 208 |
| Xchanging Claims Services Limited | – | – | – |
| Joint venture: | | | |
| The Message Exchange Limited | 44 | – | 44 |

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

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

# Notes to the Group Interim Financial Statements
*continued*

## 15. 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 at 30 June 2015 amounted to £26.1m (30 June 2014: £24.4m; 31 December 2014: £24.9m).

(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 undertakings to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

| | Six months ended 30 June 2015 £000 | Six months ended 30 June 2014 £000 | Full year 2014 (audited) £000 |
|---|---|---|---|
| Guarantees provided by the Society: | | | |
| US: US$1,500,000 (2014: US$1,500,000) | 954 | 877 | 962 |

The Society has also entered into other arrangements in connection with the rental of office space in overseas countries.

In respect of all contingent liabilities disclosed as at 30 June 2015, no provision has been made in the Society financial statements.

# Independent Review Report to the Society of Lloyd's

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

**Our conclusion**
We have reviewed the condensed set of interim financial statements, defined below, in the Group Interim Financial Statements of the Society of Lloyd's for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

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

**What we have reviewed**
The condensed set of interim financial statements, which is prepared by the Society of Lloyd's, comprises:

- the Group statement of financial position as at 30 June 2015;
- the Group income statement and statement of comprehensive income for the period then ended;
- the Group statement of cash flows for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

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

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

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

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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.

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

## Responsibilities for the condensed set of interim financial statements and the review

**Our responsibilities and those of the Council of Lloyd's**
The Society of Lloyd's Group Interim Financial Statements, including the condensed set of interim financial statements, are the responsibility of, and have been approved by, the Council of Lloyd's. The Council of Lloyd's is responsible for preparing the Society of Lloyd's Group Interim Financial Statements in order to fulfil its commitment to make the Society of Lloyd's more transparent and comparable to its peers.

Our responsibility is to express to the Society of Lloyd's a conclusion on the condensed set of interim financial statements in the Society of Lloyd's Group Interim Financial Statements based on our review. This report, including the conclusion, has been prepared for and only for the Council of Lloyd's for the purpose of fulfilling its commitment to make the Society of Lloyd's more transparent and comparable to its peers and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
9 September 2015

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