LLOYD'S

2021

Half Year Results

Contents

At a Glance

The Lloyd's market profitability is restored with an overall profit of £1.4bn and combined ratio of 92.2%. Remediation and favourable market conditions drive continued improvement in underlying performance, evidenced by further reductions in the attritional loss and expense ratios. The robust balance sheet shows net resources increasing by 7.6% to £36.5bn and a central solvency ratio of 218%.

Gross written premium

£20,465m

(HY 2020: £20,047m)

Profit before tax

£1,432m

(HY 2020: loss of £438m)

Combined ratio*

92.2%

(HY 2020: 110.4%, ex COVID-19 97.0%)

Underlying combined ratio*

85.4%

(HY 2020: 89.8%)

Underwriting profit*

£963m

(HY 2020: loss of £1,313m)

Investment income

£628m

(HY 2020: £940m)

Return on capital annualised*

8.3%

(HY 2020: (2.8%))

Net resources

£36,510m

(FY 2020: £33,941m)

Central solvency coverage ratio*

218%

(FY 2020: 209%)

Market-wide solvency coverage ratio*

170%

(FY 2020: 147%)

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

* The combined ratio, underlying combined ratio, return on capital and solvency ratios are metrics which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in the half year results) are Alternative Performance Measures (APMs), with further information available on page 54.

Introduction

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Statement from the Chief Executive

Following the challenges of 2020, markets have shown significant improvement in the first half of 2021, with most developed economies showing exponential growth. The twin challenges of systemic risk, elevated by the pandemic, and sustainability, in particular climate change, have brought risk and mitigation to the fore for both governments and businesses. This presents an enormous opportunity for the insurance industry to demonstrate its capabilities, and to provide customers and businesses with confidence as the economy begins to recover. At the same time, we have a unique opportunity to innovate, designing products and services that are fit for purpose in today's world.

Strong return to profitability

Lloyd's financial performance has shown significant improvement in the first half of 2021. We have continued our focus on achieving sustainable, long-term profitability for the market and our progress is clearly evidenced by a strong set of HY results. Lloyd's is reporting a 2021 half year profit of £1.4bn and a combined ratio of 92.2%. This represents an 18.2 percentage point improvement on the half year 2020 combined ratio (a 4.8 percentage point improvement, excluding the impact of COVID-19). The attritional loss ratio has also improved by 2.1 percentage points to 50.5% (HY 2020: 52.6%).

Gross written premiums have grown to £20.5bn which, when adjusted for foreign exchange movements and new entrants to the market, represents growth of 8.0% compared to the same point last year. This comprises of an average 9.9% risk adjusted rate increase coupled with approximately 4% exposure growth. Over the same period, the market has shed around 6% of underperforming business, demonstrating our continuous improvement and portfolio management approach in action. Lloyd's balance sheet remains strong, with a central solvency ratio of 218% and the addition of our innovative Central Fund insurance protection which we announced in June of this year. Lloyd's remains well capitalised to withstand the impact of the pandemic and our COVID-19 reserve position remains stable at £3.4bn.

The HY 2021 expense ratio has also improved from 37.7% at HY 2020 to 35.8% in HY 2021: a 1.9 percentage point reduction. The Future at Lloyd's programme will remain central to our long-term objective of reducing total acquisition and administration costs at Lloyd's.

For the first time in four years, the market has demonstrated growth on both a rate and exposure basis, whilst delivering on each of our key metrics; combined ratio, attritional loss ratio and operating expense ratio. Following our three-year remediation programme to improve market performance, coupled with our strong balance sheet, Lloyd's has successfully repositioned the market for sustainable, profitable growth.

Supporting our customers and people

From the outset of the pandemic, Lloyd's demonstrated resilience and strength, and the market continued to operate despite the challenges posed. Colleagues across the Corporation and market successfully adapted to the new virtual ways of working and our digital capabilities stood up well; enabling customers to access cover and recover from loss. We also accelerated the implementation of digital developments by building the Virtual Underwriting Room. This will work seamlessly alongside the physical Underwriting Room in Lime Street, enabling brokers and underwriters to connect and collaborate wherever they are.

Lloyd's has continued to support our customers in their most critical time of need, as the impacts of the pandemic continue to be felt across multiple industries. We have paid our obligations as quickly and as practically as possible, with over 80% of valid, notified claims already paid to customers. Alongside this, we have also placed a heightened focus on the wellbeing of our people, as they have navigated their way through the most unusual and difficult circumstances. Wellbeing will remain an important priority as Corporation staff and colleagues across the market begin their return to the office through September.

Lloyd's strategic priorities

We have continued to focus on the three strategic priorities of performance, digitalisation and culture, with the introduction of an additional pillar for 2021, our purpose.

Performance is our number priority at Lloyd's, as we position the market for sustainable profitable performance in the long term. Having delivered a strong set of interim results, our continuous performance management approach remains and our objective for 2022 syndicate business planning is centred on delivering logical, realistic and achievable plans. We will heighten our focus on the performance of cyber and financial lines classes in particular and will look to further reduce operating expenses.

The Future at Lloyd's is central to our digitalisation pillar and the remainder of 2021 and 2022 will be focused on the execution of our Blueprint Two solutions, including the conclusion of the joint venture between DXC Technology, the market associations and Lloyd's. Alongside the new digital solutions, we will deliver enhanced market services, including the aforementioned Virtual Room. As more of the solutions are developed and delivered, we will continue our strong engagement with the Lloyd's and broader London market, supporting them through the transition.

The introduction of our new purpose pillar has sustainability, climate and inclusion at its heart. In June of this year, we announced that Lloyd's had been invited to lead HRH The Prince of Wales Sustainable Markets Initiative Insurance Task Force. Work is well underway to deliver against the Task Force objectives and Lloyd's will continue to play a leading role in convening the insurance industry in the run up to the G20, COP26 and beyond.

Statement from the Chief Executive continued

Our final priority is culture. We have made good progress on our cultural priorities, focusing on wellbeing, gender and ethnicity. Our market gender target of 35% females in leadership positions is set and we have already achieved gender parity within the Corporation. Going forwards, we will set a market ethnicity target; a third of all new hires must be from black and minority ethnic backgrounds. Whilst progress has been made, there is still more to do in order to forge an inclusive, innovative culture at Lloyd's; one that attracts, retains and develops the best talent.

A new-found confidence

We are still living and working in challenging and uncertain times. The pandemic has highlighted the importance of understanding risk and the pricing of risk, and reminded us all that the threat of extreme catastrophe activity is forever present. It's a time of significant evolution and we must ensure that our market remains valid in the eyes of all our stakeholders; yet with challenge comes opportunity. Putting the customer at the heart of our decisions and innovations will be key to our success, and we are confident we have set the market up for a period of strong, sustainable performance to support this activity for the remainder of 2021 and beyond.

John Neal
Chief Executive Officer

Market commentary

Market results

The Lloyd's market reported an overall profit of £1.4bn before tax for the first six months of 2021 (HY 2020: loss of £0.4bn), with a combined ratio of 92.2% (HY 2020: 110.4%). The underwriting result is a profit of £1.0bn (HY 2020: loss of £1.3bn), representative of continued improvement in underlying performance, driven by portfolio remediation and favourable market conditions. During the six month period net investment income was £0.6bn (HY 2020: £0.9bn) and other expenses were £0.2bn (HY 2020: £0.1bn).

Underwriting result

The underwriting profit of £1.0bn (HY 2020: loss of £1.3bn), with a combined ratio of 92.2%, has also been impacted by major claims and prior year releases. Major claims contributed 6.8% to the combined ratio, significantly less than the 20.6% in HY 2020, as both the severity and frequency of events were less in HY 2021; HY 2020 was significantly impacted by COVID-19 losses. Prior year releases benefited the combined ratio by 0.9% (HY 2020: 0.5%), with releases reported across most lines of business, except for the reinsurance and casualty lines which reported some strengthening.

Adjusting for the contribution from major claims, the Lloyd's market reported an underlying combined ratio of 85.4% for the first six months of 2021; an improvement on the 89.8% reported for the first six months of 2020 and on the 87.3% reported for the 2020 financial year.

The main contributor to the improvement in the underlying combined ratio is the reduction in the attritional loss ratio which stands at 50.5%, representing a 2.1 percentage point reduction from the ratio reported for the first six months of 2020 and a 1.4 percentage point reduction from that reported for the 2020 financial year. The improvement in the attritional loss ratio is the result of the market's actions to drive sustainable profitable performance and sustained risk adjusted rate increases. There has also been an improvement in the market's expense ratio which has reduced to 35.8% from 37.7% for the first six months of 2020, a 1.9 percentage point improvement driven by a lower acquisition cost ratio. This is a continuation of the trend of a reducing expense ratio since 2017, with further reductions expected from the Future at Lloyd's programme.

Gross written premiums increased 2.1% when compared to the first six months of 2020, however excluding the impact of foreign exchange – mainly USD weakening against GBP – and growth from new syndicates, premium growth stands at 8%. The market has seen a period of sustained risk adjusted rate increases on renewal business, with the fifteenth consecutive quarter of positive rate movement being reported in the second quarter of 2021. Risk adjusted rate increases of 9.9% were reported in the first six months of 2021 across all major lines of business and geographies. This was offset by a net 1.9% reduction in business volumes period on period, after allowing for some volume growth where syndicates have demonstrated their ability to write business which contributes to sustainable profitable growth.

Investment review

The market reported net investment income of £0.6bn for the first six months of 2021, representing an investment return of 0.8% (H1 2020: £0.9bn, return of 1.2%).

Financial markets endured a mixed first half of the year as lower risk corporate and government bonds underperformed equity assets. Bond yields increased as a result of markets expecting higher inflation, which had a resulting impact on bond portfolio valuations. Equity assets have generally seen positive returns as the global economy recovers from the effects of the COVID-19 pandemic.

The Lloyd's market prudent asset allocation, with the majority of the portfolio held in government bonds, highly rated corporate bonds and cash, supports the delivery of consistently robust returns.

Balance Sheet strength

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £36.5bn at 30 June 2021, a 7.6% increase from the £33.9bn reported at 31 December 2020.

The Lloyd's market solvency ratios – both central and market-wide solvency ratios – have strengthened since 31 December 2020. The central solvency ratio has increased to 218% from 209% at 31 December 2020 and the market-wide solvency ratio has increased to 170% from 147% at 31 December 2020. These increases reflect the strengthening of both the Society of Lloyd's and Lloyd's market net assets and members' assets, respectively, in the first six months of 2021.

During the first half of 2021 Lloyd's purchased cover for the Central Fund which will increase the resilience of the Lloyd's market – by further strengthening our capital position and commitment to pay claims – and support further sustainable profitable growth across the Lloyd's market. This cover will increase our central solvency ratio, however its impact is not yet reflected at 30 June 2021 as it is subject to approval from the UK regulator.

Market Results

Contents

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

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

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

The Council of Lloyd's is responsible for the preparation and approval of the interim PFFS in accordance with the basis of preparation set out in note 2.

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

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

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

Interim pro forma financial statements

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

Society of Lloyd's Group interim financial statements

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

Pro Forma Profit and Loss Account

(For the six months ended 30 June 2021)

		Six months ended 30 June 2021		Six months ended 30 June 2020		Full year 2020	
Technical account	Note	**£m**	**£m**	£m	£m	£m	£m
Gross written premiums	8	20,465		20,047		35,466	
Outward reinsurance premiums		(6,297)		(6,388)		(9,640)	
Premiums written, net of reinsurance			14,168		13,659		25,826
Change in the gross provision for unearned premiums		(3,678)		(2,879)		78	
Change in the provision for unearned premiums, reinsurers' share		1,872		1,789		(28)	
			(1,806)		(1,090)		50
Earned premiums, net of reinsurance	8		12,362		12,569		25,876
Allocated investment return transferred from the non-technical account			80		662		1,042
			12,442		13,231		26,918
Claims paid							
Gross amount		9,395		10,512		21,422	
Reinsurers' share		(3,154)		(2,952)		(6,506)	
			6,241		7,560		14,916
Change in provision for claims							
Gross amount		225		3,150		6,075	
Reinsurers' share		502		(1,569)		(2,062)	
			727		1,581		4,013
Claims incurred, net of reinsurance	8		6,968		9,141		18,929
Net operating expenses	8, 9		4,431		4,741		9,623
Balance on the technical account for general business			1,043		(651)		(1,634)
Non-technical account							
Balance on the technical account for general business		1,043			(651)		(1,634)
Investment return on syndicate assets		132		692		1,231	
Notional investment return on members' funds at Lloyd's	5	501		276		949	
Investment return on Society assets		(5)		(28)		88	
Total investment return		628		940		2,268	
Allocated investment return transferred to the technical account		(80)		(662)		(1,042)	
			548		278		1,226
Profit/(loss) on exchange			67		113		(105)
Other income			36		25		92
Other expenses			(262)		(203)		(466)
Result for the financial period before tax	7		**1,432**		(438)		(887)

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the six months ended 30 June 2021)

Statement of comprehensive income	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 £m
Result for the financial period	7	1,432	(438)	(887)
Currency translation differences		(64)	9	49
Other comprehensive (loss)/gain in the syndicate accounts		(5)	15	12
Remeasurement gain/(loss) on pension liabilities in the Society accounts, net of tax		83	(16)	(40)
Total comprehensive income/(loss) for the financial period		**1,446**	(430)	(866)

Pro Forma Balance Sheet

(As at 30 June 2021)

	Note	30 June 2021 £m	30 June 2021 £m	30 June 2020 £m	30 June 2020 £m	31 December 2020 £m	31 December 2020 £m
Investments							
Financial investments	10		69,993		66,799		69,478
Deposits with ceding undertakings			352		67		71
Reinsurers' share of technical provisions							
Provision for unearned premiums		5,425		5,743		3,588	
Claims outstanding		21,156		22,522		21,485	
			26,581		28,265		25,073
Debtors							
Debtors arising out of direct insurance operations		9,786		10,702		8,796	
Debtors arising out of reinsurance operations		9,707		10,313		8,730	
Other debtors		1,204		1,141		1,162	
			20,697		22,156		18,688
Other assets							
Tangible assets		27		28		28	
Cash at bank and in hand	11	11,505		11,643		10,473	
Other		63		76		79	
			11,595		11,747		10,580
Prepayments and accrued income							
Accrued interest and rent		96		109		98	
Deferred acquisition costs		4,788		5,108		4,148	
Other prepayments and accrued income		253		318		168	
			5,137		5,535		4,414
Total assets			**134,355**		134,569		128,304
Capital, reserves and subordinated loan notes							
Members' funds at Lloyd's	5	31,521		29,365		30,959	
Members' balances	12	1,575		13		(326)	
Members' assets (held severally)			33,096		29,378		30,633
Central reserves (mutual assets)			2,618		2,669		2,513
Total capital and reserves	7		**35,714**		32,047		33,146
Subordinated loan notes	2		796		795		795
Total capital, reserves and subordinated loan notes			**36,510**		32,842		33,941
Technical provisions							
Provision for unearned premiums		20,214		20,945		16,743	
Claims outstanding		63,620		65,598		64,364	
			83,834		86,543		81,107
Deposits received from reinsurers			639		822		727
Creditors							
Creditors arising out of direct insurance operations		1,367		1,701		1,423	
Creditors arising out of reinsurance operations		8,018		8,595		6,834	
Other creditors including taxation		2,438		2,484		2,886	
Senior debt	2	299		299		299	
			12,122		13,079		11,442
Accruals and deferred income			1,250		1,283		1,087
Total capital, reserves and liabilities			**134,355**		134,569		128,304

Approved by the Council on 8 September 2021 signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the six months ended 30 June 2021)

	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 (restated) £m	Full year 2020 £m
Result for the financial period before tax		1,432	(438)	(887)
Increase in gross technical provisions		2,933	8,657	4,797
Increase in reinsurers' share of gross technical provisions		(1,604)	(4,336)	(1,602)
Increase in debtors		(2,733)	(3,743)	(343)
Increase in creditors		1,646	2,185	287
Movement in other assets/liabilities		(702)	(539)	(180)
Investment return		(627)	(940)	(2,268)
Depreciation		5	5	33
Tax paid		(18)	(7)	(33)
Foreign exchange		143	(700)	129
Other		(6)	23	133
Net cash flows from operating activities		469	167	66
Investing activities				
Purchase of equity and debt instruments		(20,661)	(16,937)	(32,110)
Sale of equity and debt instruments		20,070	16,839	31,304
Purchase of derivatives		(418)	(304)	(621)
Sale of derivatives		387	288	608
Investment income received		336	409	887
Other		(284)	(42)	(378)
Net cash flows from investing activities		(570)	253	(310)
Financing activities				
Net profits or losses paid to members		1,872	1,218	1,461
Net capital transferred (out of)/into syndicate premium trust funds		(795)	(115)	333
Interest paid on subordinated notes		(14)	(14)	(42)
Senior loan note issuance	2	–	299	299
Net movement in members' funds at Lloyd's		148	486	(270)
Other		(71)	63	61
Net cash flows from financing activities		1,140	1,937	1,842
Net increase in cash and cash equivalents		1,039	2,357	1,598
Cash and cash equivalents at 1 January		12,734	11,128	11,128
Exchange differences on cash and cash equivalents		(23)	88	8
Cash and cash equivalents at 30 June/31 December	13	**13,750**	13,573	12,734

Note: Refer to note 3(d) for details of the restatement of the comparative amounts for the six months ended 30 June 2020.

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2021)

1. The Interim Pro Forma Financial Statements

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

2. Basis of preparation

General

The interim PFFS have been prepared by aggregating financial information reported by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the interim financial statements of the Society of Lloyd's (the 'Society') on pages 22 to 52. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the interim PFFS.

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

The profit and loss account in the interim PFFS aggregates the syndicate results, the notional investment return on FAL and the results of the Society. The balance sheet in the interim PFFS aggregates the assets and liabilities held at syndicate level, members' assets held as FAL and the central resources of the Society.

The interim PFFS have, where practicable, been prepared in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts, Financial Reporting Standard 103 (FRS 103). In preparing the interim PFFS, note disclosures have been included for those areas the Council consider material to enable the interim PFFS to depict a comprehensive view of the financial results and position of the Lloyd's market and to enable comparison with general insurance companies, with the exception of the following items:

- Use of the aggregation basis to prepare the interim PFFS;
- Notional investment return on members' funds at Lloyd's;
- The Statement of Changes in Equity;
- Taxation; and
- Related party transactions.

(a) Aggregation

The interim PFFS have not been prepared in accordance with full consolidation principles and do not present a consolidated view of the results of the Lloyd's business taken as a single entity. However, the interim PFFS may be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

The syndicates' financial information included in the interim PFFS has been prepared in accordance with the recognition and measurement requirements of UK GAAP, by reference to the accounting policies which are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents, no adjustments are made to align the bases of recognition and measurement in the interim PFFS. In addition, no adjustments are made to eliminate inter-syndicate transactions and balances, except for those relating to inter-syndicate loans and Special Purpose Arrangements (SPA).

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

Inter-syndicate loans

The syndicate returns report debtor and creditor balances for inter-syndicate loans totalling £211m (June 2020: £169m, December 2020: £212m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the interim PFFS.

Special Purpose Arrangements (SPA)

Due to the nature of SPAs, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPAs. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the interim PFFS with a more meaningful presentation of the market's figures, all the reinsurance transactions of the SPAs have been eliminated. The key impact of this elimination is that gross written premium is reduced by £401m (June 2020: £343m, December 2020: £659m). The elimination does not affect the interim PFFS net result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

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

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

2. Basis of preparation continued

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

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

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

(c) Statement of Changes in Equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 12, which, along with the Society's interim Group Statement of Changes in Equity (on page 30), represents the changes in equity of the other components of the interim PFFS.

(d) Taxation

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

(e) Related party transactions

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

Members' funds at Lloyd's (FAL)

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

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

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available to satisfy the obligations of the central fund in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 10 to the Society interim financial statements on page 50 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society to finance the investment in the Future at Lloyd's strategy. Note 10 to the Society interim financial statements on page 50 provides additional information.

Society of Lloyd's interim financial statements

The interim PFFS include the results and net assets reported in the interim financial statements of the Society (after appropriate adjustments to convert to UK GAAP), comprising the interim financial statements of the Society and all its subsidiary undertakings, the Lloyd's Central Fund and the Society's interest in associates and joint ventures.

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

3. Accounting policies notes

(a) Syndicate returns

The syndicate level information within the interim PFFS has been prepared in accordance with the recognition and measurement requirements of FRS 102 and FRS 103. These accounting policies are consistent with those adopted in the PFFS in the 2020 Annual Report.

(b) Members' funds at Lloyd's (FAL)

FAL is valued in accordance with their market value at the period end, and using period end exchange rates. Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and international deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Letters of credit are stated at the amount guaranteed by the issuing credit institution.

As disclosed in the basis of preparation, a notional investment return on FAL is estimated, which is recognised in the non-technical account.

Members that only participate in one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust fund. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account. These policies are consistent with those adopted in the PFFS in the 2020 Annual Report.

(c) Society of Lloyd's

The accounting policies adopted in the Society interim financial statements are set out on pages 32 and 33. Adjustments have been made to the information incorporated into the interim PFFS where the Council have considered there to be material accounting policy differences between the existing international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union accounting policies and the recognition and measurement requirements of UK GAAP.

(d) Prior period restatement

The interim Pro Forma Cash Flow Statement comparative amounts for the six months ended 30 June 2020 have been restated for presentational errors. The effect of the adjustments have no net impact on the net decrease in cash and cash equivalents or the cash and cash equivalents balance in the Pro Forma Balance Sheet.

Cash flows for derivative purchase or sale transactions have been restated to be presented on a net basis to reflect the actual cash flows. This results in a decrease in cash outflows/inflows from the purchase/sale of derivatives of £4,439m. The net impact on net cash flows from investing activities is £nil.

Increases in debtors and creditors included Society increases in insurance contract assets and liabilities of £591m, partially offset by a net decrease from insurance payables to the market and foreign exchange of £186m. These balances have been eliminated as insurance contract liabilities and premiums receivable are already reported by the market in the aggregate accounts and Society insurance contract assets and insurance payables are balances with syndicates which are eliminated in the Pro Forma Financial Statements. The result is a reduction in the increase in debtors and increase in creditors of £405m. The impact on net cash flows from operating activities is £nil.

	Six months ended 30 June 2020 £m	Adjustment £m	Six months ended 30 June 2020 (restated) £m
Increase in debtors	(4,138)	405	(3,743)
Increase in creditors	2,590	(405)	2,185
Net cash flows from operating activities	167	–	167
Purchase of Derivatives	(4,743)	4,439	(304)
Sale of Derivatives	4,727	(4,439)	288
Net cash flows from investing activities	253	–	253

4. Variability

Movements in reserves are based upon estimates as at 30 June 2021 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur. The aggregate of the prior year surpluses/deficiencies is a net surplus of £119m (June 2020: net surplus £67m, December 2020: net surplus £461m). Surpluses have been reported across all classes of business, except for reinsurance and casualty, reflecting favourable claims development compared to projections.

5. Members' funds at Lloyd's (FAL)

The valuation of FAL in the balance sheet totals £31,521m (June 2020: £29,365m, December 2020: £30,959m). The notional investment return on FAL included in the non-technical profit and loss account totals £501m (June 2020: £276m, December 2020: £949m).

6. Society of Lloyd's

The results of the Group interim financial statements of the Society included in the profit and loss account are a profit of £252m (June 2020: £233m, December 2020: £413m) in the technical account and a loss of £226m (June 2020: loss of £69m, December 2020: loss of £373m) in the non-technical account.

Other income of £36m (June 2020: £36m; December 2020: £92m) contains £39m (June 2020: £35m; December 2020: £99m) of Society income, offset by £3m (June 2020: £10m; December 2020: £7m) of other charges reported by the market. Whilst other expenses of £261m (June 2020: £203m; December 2020: £466m) are entirely driven by the Society results.

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

7. Aggregation of results and net assets

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

Profit and loss account	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 £m
Result per syndicate interim returns	905	(878)	(1,876)
Result of the Society	59	174	50
Taxation charge in Society financial statements	18	44	10
Notional investment return on members' funds at Lloyd's	501	276	949
Movement in Society income not accrued in syndicate interim returns	(51)	(54)	(20)
Result for the financial period before tax	**1,432**	(438)	(887)

Capital and reserves	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 £m
Net assets per syndicate interim returns	1,665	37	(276)
Net assets of the Society	3,132	2,899	3,027
Elimination of syndicate loans	(514)	(230)	(514)
Members' funds at Lloyd's	31,521	29,365	30,959
Unpaid cash calls reanalysed from debtors to members' balances	(12)	51	(12)
Society income receivable not accrued in syndicate interim returns	(78)	(75)	(38)
Total capital and reserves	**35,714**	32,047	33,146

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

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

8. Segmental analysis

The syndicate returns to Lloyd's provided additional information to derive the following table in respect of the various lines of business written by the market. In the interim PFFS, this information is not subject to auditor review.

Six months ended 30 June 2021	**Gross written premiums £m**	**Net earned premium £m**	**Net incurred claims £m**	**Net operating expenses £m**	**Under-writing result £m**
Reinsurance	8,350	4,434	(2,836)	(1,399)	199
Property	4,898	3,045	(1,448)	(1,316)	281
Casualty	4,597	3,116	(1,883)	(1,277)	(44)
Marine, Aviation and Transport	1,544	1,065	(435)	(424)	206
Energy	705	388	(188)	(141)	59
Motor	349	294	(170)	(118)	6
Life	22	20	(8)	(8)	4
Total from syndicate operations	20,465	12,362	(6,968)	(4,683)	711
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society				252	252
Interim PFFS premiums and underwriting result	**20,465**	**12,362**	**(6,968)**	**(4,431)**	**963**
Allocated investment return transferred from the non-technical account					80
Balance on the technical account for general business					**1,043**

Six months ended 30 June 2020	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	7,759	3,880	(2,756)	(1,380)	(256)
Property	5,104	3,317	(2,885)	(1,434)	(1,002)
Casualty	4,404	3,355	(2,358)	(1,383)	(386)
Marine, Aviation and Transport	1,585	1,121	(665)	(446)	10
Energy	761	445	(219)	(164)	62
Motor	405	424	(242)	(160)	22
Life	29	27	(16)	(9)	2
Total from syndicate operations	20,047	12,569	(9,141)	(4,976)	(1,548)
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	–	–	–	235	235
Interim PFFS premiums and underwriting result	20,047	12,569	(9,141)	(4,741)	(1,313)
Allocated investment return transferred from the non-technical account					662
Balance on the technical account for general business					(651)

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

9. Net operating expenses

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 £m
Acquisition costs	4,538	4,659	8,439
Change in deferred acquisition costs	(666)	(433)	234
Administrative expenses	1,084	1,121	2,177
Reinsurance commissions and profit participation	(525)	(606)	(1,227)
Total operating expenses	**4,431**	4,741	9,623

10. Financial investments

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Shares and other variable yield securities	9,632	9,023	8,998
Debt securities and other fixed income securities	47,610	46,697	47,764
Participation in investment pools	2,881	2,618	2,799
Loans and deposits with credit institutions	9,708	8,313	9,688
Other investments	162	148	229
Total investments	**69,993**	66,799	69,478

11. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £6,734m at 30 June 2021 (June 2020: £7,342m, December 2020: £6,586m).

12. Members' balances

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 £m
Balance at 1 January	(326)	(242)	(242)
Result for the period per syndicate interim returns	905	(878)	(1,876)
Losses collected in relation to distribution on closure of the 2018 (2017) underwriting year	1,135	1,106	967
Advance distributions from open underwriting years	(11)	(11)	(16)
Cash calls requested (but not yet paid)	748	123	510
Net movement on funds in syndicate (see note below)	(795)	(115)	333
Exchange (losses)/gains	(28)	19	(1)
Other	(53)	11	(1)
Balance at 30 June/31 December	**1,575**	13	(326)

Members participate on syndicates by reference to years of account. Members' ultimate results, assets and liabilities are assessed by year of account with reference to policies incepting in that year of account. Members' balances represent the net profit/(loss) to be distributed/(collected) by syndicates to/(from) the members. Where there are profits and members' FAL held in excess of members' capital requirements, they will be distributed in the second quarter of the year following the closure of the year of account.

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 30 June 2021 there was £4,199m (June 2020: £4,725m, December 2020: £5,005m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

Notes to the Interim Pro Forma Financial Statements continued

(At 30 June 2021)

13. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Cash at bank and in hand	11,505	11,643	10,473
Short term deposits with credit institutions	2,554	2,207	2,513
Overdrafts	(309)	(277)	(252)
Cash and cash equivalents	13,750	13,573	12,734

Of the cash and cash equivalents, £712m (June 2020: £333m, December 2020: £720m) is held in regulated bank accounts in overseas jurisdictions.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2021 Lloyd's Interim Pro Forma Financial Statements

The Council of Lloyd's engaged us to undertake a limited assurance engagement in respect of the preparation of the interim Pro Forma Financial Statements ('the interim PFFS') for the six months ended 30 June 2021 as set out on pages 9-19 in Lloyd's Half Year Results 2021. The interim PFFS have been compiled by the Council of Lloyd's by aggregating financial information reported in syndicate returns, the Society of Lloyd's schedules supporting its condensed consolidated interim financial statements and Members' Funds at Lloyd's.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the interim PFFS for the six months ended 30 June 2021 have not been prepared, in all material respects, in accordance with the basis of preparation set out in note 2.

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

Scope of work

The scope of our work was limited to assurance over the interim PFFS, prepared by the Council of Lloyd's, which comprise: the Pro Forma Balance Sheet as at 30 June 2021, the Pro Forma Profit and Loss account, the Pro Forma Statement of Comprehensive Income, the Pro Forma Statement of Cash Flows for the six months then ended and notes to the interim PFFS.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Lloyd's Half Year Results 2021 for the six months ended 30 June 2021.

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

Professional standards applied and level of assurance

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

Our Independence and Quality Control

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

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

Work done

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

Our procedures consisted principally of:

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

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

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

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

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2021 Lloyd's Interim Pro Forma Financial Statements continued

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

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

We are responsible for:

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

Intended users and purpose

This report, including our conclusion, has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 31 August 2021. Our examination has been undertaken so that we might state to the Council of Lloyd's those matters which have come to our attention in accordance with the engagement letter and for no other purpose. We permit this report to be disclosed in the Lloyd's Half Year Results 2021, to assist the Council of Lloyd's in responding to their governance responsibilities by obtaining an independent assurance report in connection with the preparation of the interim PFFS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Lloyd's for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 September 2021

Society Report

Contents

Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society achieved an operating surplus* for the period of £96m (30 June 2020: £144m, 31 December 2020: £101m). The operating surplus is set out below:

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Total income	327	317	511
Gross written premiums	1,334	1,072	5,978
Outward reinsurance premiums	(1,334)	(1,072)	(5,978)
Group operating expenses	(231)	(173)	(410)
Operating surplus*	96	144	101

Total income for the Society increased to £327m during the first half of 2021 (30 June 2020: £317m; 31 December 2020: £511m). The increase was driven by Central Fund and member subscriptions income which increased due to increases in premium written by the market.

The increase in Central Fund and member subscriptions income is partially offset by a reduction in market modernisation levy income recognised as the levy is no longer charged. A residual amount of levy income has been earned in the current period. Overseas operating charges are consistent with the prior period.

Gross written premiums recognised is higher than the comparative period last year, reflecting higher forecast GWP for the current underwriting year compared to 2020 and rate increases. All business underwritten through the Corporation is 100% reinsured to Lloyd's Syndicates.

Group operating expenses have increased to £231m (30 June 2020: £173m; £31 December 2020: £410m). This is mainly due to the acquisition of insurance for the Central Fund, an increase in project expenses, including the Future at Lloyd's (expensed in the current period whereas were partially capitalised in prior period 30 June 2020) and increases in employment costs and professional fees.

Investment performance

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Finance income	6	99	2
Finance costs	(30)	(30)	(59)
Net finance income	(24)	69	(57)

The Society's investments, mostly held within the Central Fund, returned £6m or 0.1% during the first half of the year (30 June 2020: £99m, 2.1%; 31 December 2020: £2m, 1%). Excluding exchange rate movements, investments returned a loss of £5m or -0.1% during the same period (30 June 2020: loss of £28m or -0.6%; 31 December 2020: £87m, 2.1%).

Markets have been relatively stable during the period, as the global recovery from the affects of the COVID-19 pandemic gathered pace. Capital losses on fixed income securities due to increases in bond yields were offset by further positive returns on global equity markets.

Results summary

Overall, the surplus after tax for the six months to 30 June 2021 was £59m (30 June 2020: £174m, 31 December 2020: £46m). The net other comprehensive surplus for the period was £59m (30 June 2020: £8m surplus, 31 December 2020: £24m deficit), due to a remeasurement gain on pension liabilities partially offset by currency translation losses. Overall, after accounting for returns paid on syndicate loans, the net assets of the Society increased by £108m in the six months to 30 June 2021 to £3,131m (30 June 2020: £2,899m, 31 December 2020: £3,023m).

* The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Interim Report) is an Alternative Performance Measure (APM), with further information available on page 54.

Society of Lloyd's Group Interim Review continued

Solvency

The Society's solvency position is set out below.

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	31 December 2020 (audited) £m
Central net assets per Group statement of financial position	3,131	2,899	3,023
Subordinated debt	796	795	795
Total	3,927	3,694	3,818
Solvency valuation adjustments	592	319	543
Available central own funds to meet the Central SCR	4,519	4,013	4,361
Excess central own funds not eligible to cover the Central SCR	–	(112)	–
Eligible central own funds to meet the Central SCR	4,519	3,901	4,361
Central SCR	2,076	1,558	2,085
Central solvency ratio	218%	250%	209%

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

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

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. The inclusion of the Tier 2 subordinated debt issued means that Lloyd's Tier 2 and Tier 3 central capital exceeded 50% of the Central SCR by £nil as at 30 June 2021 (30 June 2020: £112m, 31 December 2020: £nil).

Based on central own funds eligible to meet the Central SCR of £4,519m (30 June 2020: £3,901m, 31 December 2020: £4,361), the solvency ratio is 218% (30 June 2020: 250%, 31 December 2020: 209%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

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

Sustaining business operations and taking care of our people through COVID-19

Through 2020, the Society had demonstrated the resilience of its business operations, its continual focus on meeting the demands of customers (with global pay-outs set to reach £6.2bn (gross) in the year), and providing support to our employees in very trying circumstances. As the UK entered its third national lockdown in early January, we reaffirmed how the market could continue to perform business; continued to invest in new ways of placing business (such as the Virtual Room), and stayed committed to local communities, for example with the daily provision of meals for local shelters from our kitchen in Lime Street. We also re-established a renewed focus on wellbeing for our people, with access to resources and helplines together with an organised series of events for both our employees and also the market.

In line with the four stages of the UK government roadmap, our offices were reopened for essential workers and those who needed this space for their wellbeing from 12 April; we maintained strict health and safety guidance (including enhanced cleaning) as we also reopened the Underwriting Room on 17 May on a Class of Business rota. These restrictions were lifted from 15 July and we look forward to fully embracing flexible working for the Society's employees from mid-September, that will see employees return to the office for an average of three days per week, depending on the needs of their teams.

In August 2021, the UK Government announced a Live Events Reinsurance Scheme in partnership with the Lloyd's market to support live events across the UK that are open to the general public to purchase tickets, such as music festivals, sporting and business events. The partnership will cover costs incurred in the event of cancellation due to national or sectoral lockdowns being reimposed and will run from September 2021 to September 2022. This new partnership strengthens our efforts to support customers through the pandemic, endeavouring to provide confidence as society begins to reopen and begin its recovery.

Going Concern Statement

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

The Society considered the possible financial implications of the disruption caused by COVID-19 in determining the Lloyd's strategy 2021 to 2023. This included considering possible reductions in operating income and additional provision for charges to the Central Fund. The strategic plan, together with the de-risking the Central Fund investment portfolio, sensitivity analysis of the pension obligations to market movements and other financial risks arising from the COVID-19 pandemic, have been considered in making the going concern assessment. Both the forecast solvency and liquidity position of the Society have taken these factors into account.

Council of Lloyd's Statement of Principal Risks and Uncertainties

The Corporation identifies and assesses key risks which could have a significant impact on Lloyd's business. The Council manages exposure to these risks by setting and monitoring a risk appetite framework. The framework starts with Lloyd's purpose, **sharing risk to create a braver world.**

Principal risks in the Lloyd's risk framework are:

- The inherent uncertainty of major insurance loss events;
- Sustainable market performance;
- Delivery of major change programmes (including the Future at Lloyd's);
- The economic environment with low interest rates, recession and inflationary pressures;
- Evolving cyber security threats; and
- Climate change.

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

COVID-19

The COVID-19 pandemic has caused global economic uncertainty and social restrictions which directly impact the Lloyd's market and changing the dynamics of the risks above. Since March 2020, the majority of Corporation employees have been working remotely, however UK offices and the underwriting rooms have now been reopened and a flexible 'hybrid' working model for colleagues has been established.

The impacts of COVID-19 and associated controls are actively monitored to provide assurance that risks are appropriately managed through this evolving environment.

Risk	Mitigating action
Claims Risk that the quantum of the claims from COVID-19 develop more than expected resulting in a number of classes of business suffering losses. This includes primary losses and those caused by economic conditions	– Extensive and close monitoring of the claims development within the Lloyd's market, including the development of a range of potential scenarios to assess plausible impacts on Lloyd's. – Further enhancement of risk-based supervision as part of the business planning process for 2021 which provides flexibility to the best performing businesses and greater scrutiny and oversight on businesses with a poor track record.
Operational effectiveness Risk that internal systems and processes are no longer adequate as a result of the changes in working practices resulting from COVID-19	– Ongoing monitoring of operational resilience, with a focus on important business services. – Established a dedicated contact point for policyholder assistance and claims support. – Increased support for staff has been put in place during the prolonged and ongoing period of working from home, and now including for the return to the physical office space and a flexible working environment.
Economic conditions Reduced levels of expected income with no associated reduction in volatility	– Implemented a managed de-risking plan for the Central Fund which would look to insulate the Investment portfolio to market volatility. – Heightened controls over portfolio concentrations relating to Letter of Credit exposure.

Council of Lloyd's Statement of Responsibilities

We confirm that to the best of our knowledge:

– The condensed set of interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board, which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2021;

– The statement from the Chief Executive and the Society Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;

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

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

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

On behalf of the Council of Lloyd's:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

8 September 2021

Group Income Statement

(For the six months ended 30 June 2021)

	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Corporation operating income		184	190	384
Central Fund income		143	127	127
Gross written premiums	3	1,334	1,072	5,978
Outward reinsurance premiums	3	(1,334)	(1,072)	(5,978)
Total income	3	**327**	317	511
Gross insurance claims and insurance expenses incurred	3	(1,056)	(953)	(5,824)
Insurance claims and expenses recoverable from reinsurers	3	1,056	953	5,824
Group operating expenses	3	(231)	(173)	(410)
Operating surplus		**96**	144	101
Finance costs	4(a)	(30)	(30)	(59)
Finance income	4(b)	6	99	2
Share of profits of associates and joint ventures		5	5	12
Surplus before tax		**77**	218	56
Tax charge	5	(18)	(44)	(10)
Surplus for the period/year		**59**	174	46

Group Statement of Comprehensive Income

(For the six months ended 30 June 2021)

	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Surplus for the period/year		59	174	46
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or loss				
Remeasurement gain/(loss) on pension liabilities	6	82	(27)	(54)
Share of remeasurement gain/(loss) on associate pension liabilities		2	–	(2)
Tax (charge)/credit relating to items that will not be reclassified	5	(1)	11	16
Items that may be reclassified subsequently to profit or loss				
Currency translation differences		(24)	24	16
Net other comprehensive surplus/(deficit) for the period/year		**59**	8	(24)
Total comprehensive income for the period/year		**118**	182	22

Group Statement of Financial Position

(As at 30 June 2021)

	Note	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 (audited) £m
Assets				
Intangible assets	7	65	43	54
Lloyd's Collection		15	15	15
Plant and equipment		12	13	13
Right-of-use asset		145	165	155
Deferred tax asset		48	54	56
Tax receivable		–	–	29
Investment in associates and joint ventures		31	29	24
Insurance contract assets		7,230	2,469	7,095
Loans recoverable		27	33	32
Financial investments at fair value through profit and loss	8	2,828	2,869	2,676
Financial investments at amortised cost	8	1,535	1,289	1,433
Trade and other receivables due within one year		1,316	1,139	1,713
Prepayments and accrued income		15	17	19
Derivative financial instruments	8	32	23	21
Cash and cash equivalents		1,280	1,115	1,174
Total assets		**14,579**	9,273	14,509
Equity and liabilities				
Equity				
Accumulated reserve		2,600	2,620	2,468
Translation reserve		2	34	26
Revaluation reserve		15	15	15
Syndicate loans	9	514	230	514
Total equity		**3,131**	2,899	3,023
Liabilities				
Senior and subordinated debt	10	1,095	1,094	1,094
Insurance contract liabilities		7,230	2,469	7,095
Pension liabilities	6	106	168	187
Provisions		55	74	66
Loans funding statutory insurance deposits		749	770	805
Trade and other payables		1,854	1,383	1,929
Accruals and deferred income		198	188	124
Tax payable		–	35	–
Lease liability		146	162	154
Derivative financial instruments	8	15	31	32
Total liabilities		**11,448**	6,374	11,486
Total equity and liabilities		**14,579**	9,273	14,509

Approved and authorised for issue by the Council of Lloyd's on 8 September 2021 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the six months ended 30 June 2021)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2020		2,466	10	15	110	2,601
Syndicate loans		–	–	–	120	120
Dividend paid on syndicate loans		(4)	–	–	–	(4)
Surplus for the period		174	–	–	–	174
Net other comprehensive (deficit)/surplus for the period		(16)	24	–	–	8
At 30 June 2020		2,620	34	15	230	2,899
Syndicate loans		–	–	–	284	284
Deficit for the period		(128)	–	–	–	(128)
Net other comprehensive deficit for the period		(24)	(8)	–	–	(32)
At 31 December 2020		2,468	26	15	514	3,023
Syndicate loans	9	–	–	–	–	–
Dividend paid on syndicate loans	9	(10)	–	–	–	(10)
Surplus for the period		59	–	–	–	59
Net other comprehensive surplus/(deficit) for the period		83	(24)	–	–	59
At 30 June 2021		**2,600**	**2**	**15**	**514**	**3,131**

Group Statement of Cash Flows

(For the six months ended 30 June 2021)

	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Cash generated from operations	11	564	181	33
Tax paid		(18)	(7)	(33)
Net cash generated from operating activities		**546**	174	–
Cash flows from investing activities				
Purchase of intangible assets	7	(14)	(29)	(66)
Purchase of plant and equipment		(1)	(3)	(4)
Purchase of financial investments	8	(1,934)	(1,433)	(3,074)
Receipts from the sale of financial investments	8	1,883	1,394	3,183
Increase in short-term deposits	8	(161)	(38)	(148)
Dividends received from associates and joint ventures		–	5	14
Investment in joint venture		–	(7)	(7)
Loans advanced	2	(80)	–	–
Interest received		14	20	37
Dividends received	4	3	3	5
Settlement of derivative contracts		(47)	17	(54)
Net cash used in investing activities		**(337)**	(71)	(114)
Cash flows from financing activities				
Syndicate loans	9	–	120	404
Senior loan note issuance	10(i)	–	299	299
Interest paid on senior debt		(5)	–	(4)
Interest paid on subordinated notes		(14)	(14)	(38)
Dividend paid on syndicate loans	9	(10)	(4)	(4)
(Decrease)/increase in borrowings for statutory insurance deposits		(56)	80	115
Lease payments		(13)	(13)	(25)
Net cash (used in)/generated from financing activities		**(98)**	468	747
Net increase in cash and cash equivalents		111	571	633
Effect of exchange rates on cash and cash equivalents		(5)	11	8
Cash and cash equivalents at 1 January		1,174	533	533
Cash and cash equivalents at 30 June/31 December		**1,280**	1,115	1,174

Notes to the Group Interim Financial Statements

(As at 30 June 2021)

1. The Group interim condensed financial statements

The Group interim financial statements of the Society were approved by the Council on 8 September 2021. The Group interim financial statements comprise the consolidation of the Society and all its subsidiary undertakings, the Society's Central Fund and the Group's interest in associates and joint ventures as at each statement of financial position date. The Group interim financial statements for the six months ended 30 June 2021 and 30 June 2020 are unaudited. The auditor's independent review report to the Society, for the six months ended 30 June 2021, is set out on page 53. The Society Group interim financial statements should be read in conjunction with the financial statements for the year ended 31 December 2020.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2020 prepared under international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union (IFRS). Their report was included in the Annual Report 2020 which was published on 9 April 2021 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 issued by the International Accounting Standards Board) which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The main accounting policies identified involving such assessments are unchanged from those reported in the 2020 Annual Report.

The accounting policies, except for the adoption of the amendments to the IFRS that became effective as of 1 January 2021 as stated below, are consistent with those adopted for the Society's 2020 Annual Report, which was approved on 8 April 2021. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New standards, interpretations and amendments to existing standards that have been adopted by the Society

The Society has not adopted any new IFRS standards for the period beginning 1 January 2021.

The Society adopted the following amendments with effect from 1 January 2021:

- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments, recognition and measurement, IFRS 7 Financial instruments (disclosures), IFRS 4 Insurance Contracts and IFRS 16 Leases. Provides temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced; and
- COVID-19-related Rent Concessions – Amendments to IFRS 16. Extends the optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

Implementation of the above amendments to existing standards has had no impact on the Group interim financial statements.

New standards, interpretations and amendments to existing standards issued but not yet implemented

IFRS 17 – Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 as replacement for IFRS 4 Insurance contracts. Amendments to IFRS 17 were issued in June 2020. The effective date of the standard is 1 January 2023.

Implementation of IFRS 17 is expected to have a material impact on the Society's consolidated financial statements, driven by the insurance operations in Belgium, Lloyd's Insurance Company S.A. and China, Lloyd's Insurance Company (China) Limited. However, as the business is fully reinsured, the impact on the operating surplus and surplus for the year is not expected to be material.

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

Further information on the Society's current accounting policy for insurance contracts is provided in the 2020 Annual Report.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

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

Accounting policies applied to other significant transactions during the period

Purchase of Central Fund insurance

The Society has entered into insurance arrangements and other connected transactions with Constellation IC Limited (Constellation) and a panel of other insurers to provide insurance protection for Lloyd's Central Fund in situations where the Central Fund makes payments to cover members' liabilities. Constellation is an incorporated cell of White Rock Insurance (Guernsey) ICC Limited and both entities are registered and domiciled in Guernsey and authorised by the Guernsey Financial Services Commission. The Society has no shareholding interest in either of the entities.

The insurance programme incepted on 1 January 2021 and has a duration of five years (with a possible extension to hold collateral for up to a further three years to cover adverse claims development). The Society retains the first £600m of claims payable. The total amount of cover provided by the programme is £650m, with layers provided by Constellation and a panel of reinsurers. The layer insured by Constellation of £450m is 100% collateralised for the five year term. Insurance premiums are expensed as incurred. Constellation has been funded by loans, including £80m from the Society, which has been disclosed in note 8, Financial Investments. The loan is classified and measured at fair value through profit and loss in accordance with the Society's accounting policy for financial assets in accordance with IFRS 9 Financial Instruments. Interest income is accrued on the loan.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

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.

The Society's primary business segments are as follows:

- Corporation of Lloyd's: the main corporate purpose is to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings (primarily Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited) are included within this business segment; and
- Lloyd's Central Fund: these funds, comprising the New Central Fund and Old Central Fund, are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas Reinsurance Limited.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

3. Segmental analysis continued

	Note	Six months ended 30 June 2021 Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Information by business segment				
Segment income				
Total income		**184**	**143**	**327**
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(1,056)	–	(1,056)
Insurance claims and expenses recoverable from reinsurers		1,056	–	1,056
Group operating expenses:				
Employment (including pension costs)		(93)	–	(93)
Premises		(21)	–	(21)
Legal and professional		(56)	(1)	(57)
Systems and communications		(26)	–	(26)
Other		(9)	(25)	(34)
Total Group operating expenses		**(205)**	**(26)**	**(231)**
Total segment operating expenses		**(205)**	**(26)**	**(231)**
Total segment operating (deficit)/surplus		**(21)**	**117**	**96**
Finance costs	4(a)	(10)	(20)	(30)
Finance income	4(b)	(3)	9	6
Share of profits of associates and joint ventures		5	–	5
Segment (deficit)/surplus before tax		(29)	106	77
Tax charge	5			(18)
Surplus for the period				59
Segment assets and liabilities				
Insurance contract assets		7,230	–	7,230
Financial investments at fair value through profit and loss	8(b)	511	2,317	2,828
Financial investments at amortised cost	8(a)	1,035	500	1,535
Cash and cash equivalents		907	373	1,280
Other assets		983	675	1,658
Segment assets		10,666	3,865	14,531
Deferred tax asset		48	–	48
Tax debtor		12	(12)	–
Total assets		**10,726**	**3,853**	**14,579**
Insurance contract liabilities		(7,230)	–	(7,230)
Other segment liabilities		(3,384)	(834)	(4,218)
Tax liabilities		–	–	–
Total liabilities		**(10,614)**	**(834)**	**(11,448)**
Total equity		**112**	**3,019**	**3,131**

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

3. Segmental analysis continued

	Note	Six months ended 30 June 2020 Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Information by business segment				
Segment income				
Total income		190	127	317
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(953)	–	(953)
Insurance claims and expenses recoverable from reinsurers		953	–	953
Group operating expenses:				
Employment (including pension costs)		(73)	–	(73)
Premises		(13)	–	(13)
Legal and professional		(43)	(1)	(44)
Systems and communications		(23)	–	(23)
Other		(22)	2	(20)
Total Group operating expenses		(174)	1	(173)
Total segment operating expenses		(174)	1	(173)
Total segment operating surplus		16	128	144
Finance costs	4(a)	(9)	(21)	(30)
Finance income	4(b)	21	78	99
Share of profits of associates and joint ventures		5	–	5
Segment surplus before tax		33	185	218
Tax charge	5			(44)
Surplus for the period				174
Segment assets and liabilities				
Insurance contract assets		2,469	–	2,469
Financial investments at fair value through profit and loss	8(b)	303	2,566	2,869
Financial investments at amortised cost	8(a)	1,061	228	1,289
Cash and cash equivalents		722	393	1,115
Other assets		1,027	450	1,477
Segment assets		5,582	3,637	9,219
Tax assets		54	–	54
Total assets		5,636	3,637	9,273
Insurance contract liabilities		(2,469)	–	(2,469)
Other segment liabilities		(3,023)	(847)	(3,870)
Tax liabilities		4	(39)	(35)
Total liabilities		(5,488)	(886)	(6,374)
Total equity		148	2,751	2,899

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

3. Segmental analysis continued

		Full year 2020 (audited)		
	Note	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Information by business segment				
Segment income				
Total income		384	127	511
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(5,824)	–	(5,824)
Insurance claims and expenses recoverable from reinsurers		5,824	–	5,824
Group operating expenses:				
Employment (including pension costs)		(161)	–	(161)
Premises		(41)	–	(41)
Legal and professional		(113)	(1)	(114)
Systems and communications		(44)	–	(44)
Other		(49)	(1)	(50)
Total Group operating expenses		(408)	(2)	(410)
Total segment operating expenses		(408)	(2)	(410)
Total segment operating (deficit)/surplus		(24)	125	101
Finance costs	4(a)	(18)	(41)	(59)
Finance income	4(b)	(4)	6	2
Share of profits of associates and joint ventures		12	–	12
Segment (deficit)/surplus before tax		(34)	90	56
Tax charge	5			(10)
Surplus for the year				46

	Note	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Segment assets and liabilities				
Insurance contract assets		7,095	–	7,095
Financial investments at fair value through profit and loss	8(b)	533	2,143	2,676
Financial investments at amortised cost	8(a)	1,026	407	1,433
Cash and cash equivalents		606	568	1,174
Other assets		1,367	679	2,046
Segment assets		10,627	3,797	14,424
Deferred tax		56	–	56
Tax debtor		25	4	29
Total assets		10,708	3,801	14,509
Insurance contract liabilities		(7,095)	–	(7,095)
Other segment liabilities		(3,547)	(844)	(4,391)
Total liabilities		(10,642)	(844)	(11,486)
Total equity		66	2,957	3,023

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

3. Segmental analysis continued

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Corporation of Lloyd's			Lloyd's Central Fund			Society Total		
	June 2021 £m	June 2020 £m	Dec 2020 £m	**June 2021 £m**	June 2020 £m	Dec 2020 £m	**June 2021 £m**	June 2020 £m	Dec 2020 £m
Type of service									
Members' subscriptions, net of rebate	72	63	128	–	–	–	72	63	128
Market charges and other services									
Market charges	77	79	168	–	–	–	77	79	168
Market modernisation levy	1	9	19	–	–	–	1	9	19
Reinsurance commission	30	31	57	–	–	–	30	31	57
Other charges	4	8	12	–	–	–	4	8	12
Central Fund income	–	–	–	143	127	127	143	127	127
Total revenue from contracts with customers	**184**	190	384	**143**	127	127	**327**	317	511
Geographical markets									
UK	107	131	270	143	127	127	250	258	397
Rest of Europe*	40	34	56	–	–	–	40	34	56
China	11	8	17	–	–	–	11	8	17
Other	26	17	41	–	–	–	26	17	41
Total revenue from contracts with customers	**184**	190	384	**143**	127	127	**327**	317	511

*June 2020 Rest of Europe restated to include all European operations of the Group other than UK operations.

The table below analyses insurance premiums by geographical segment:

	Six months ended 30 June 2021 £m			
	UK	**Europe**	**China**	**Total**
Gross written premiums	–	1,291	43	1,334
Outward reinsurance premiums	–	(1,291)	(43)	(1,334)
Net insurance premiums	–	–	–	–

	Six months ended 30 June 2020 £m			
	UK	Europe	China	Total
Gross written premiums	–	1,012	60	1,072
Outward reinsurance premiums	–	(1,012)	(60)	(1,072)
Net insurance premiums	–	–	–	–

	Full year 2020 (audited) £m			
	UK	Europe	China	Total
Gross written premiums	–	5,886	92	5,978
Outward reinsurance premiums	–	(5,886)	(92)	(5,978)
Net insurance premiums	–	–	–	–

Note: Gross earned premiums for the period were £1,121m (30 June 2020: £1,141m, 31 December 2020: £5,808m). Earned premium net of reinsurance premiums were £nil (30 June 2020: £nil, 31 December 2020: £nil).

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

4. Finance

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
a) Finance costs			
Interest payable on financial liabilities measured at amortised cost	(23)	(23)	(46)
Lease liability interest	(4)	(5)	(8)
Amortisation of issue costs and discount	–	–	(1)
Other finance costs	(3)	(2)	(4)
Total finance costs	**(30)**	(30)	(59)
b) Finance income			
Bank interest received	1	4	6
Dividends received	3	3	5
Other returns on investments designated at fair value through profit or loss	23	67	2
Unrealised fair value movement of derivatives held for trading	29	8	(20)
Realised fair value movement of derivatives held for trading	(47)	17	8
(Decrease)/increase in valuation of loans recoverable designated at fair value through profit or loss	(3)	–	1
Total finance income	**6**	99	2
Net finance (costs)/income	**(24)**	69	(57)

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

5. Taxation

a) Tax charge

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Current tax:			
Corporation tax based on profits for the period at 19% (2020: 19%)	(11)	(37)	(1)
Adjustments in respect of previous years	1	(2)	–
Foreign tax suffered	(1)	(1)	(2)
Total current tax	**(11)**	(40)	(3)
Deferred tax:			
Origination and reversal of timing differences			
Current period	(7)	(5)	(9)
Prior year	–	1	2
Tax charge recognised in the Group income statement	(18)	(44)	(10)
Analysis of tax (charge)/credit recognised in the Group statement of comprehensive income:			
Tax (charge)/credit on actuarial gain/loss on Group pension liabilities	(1)	11	16
Tax (charge)/credit recognised in the Group statement of comprehensive income	(1)	11	16
Total tax (charge)/credit recognised in the Group statement of comprehensive income	**(19)**	(33)	6

b) Reconciliation of effective tax rate

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Surplus on ordinary activities before tax	77	218	56
Corporation tax at 19% (2020: 19%)	(15)	(41)	(11)
Expenses not deductible for tax purposes	1	–	(2)
Share of profit of associates and joint ventures	1	1	2
Deferred tax adjustment relating to change in tax rate	(7)	(2)	(2)
Deferred tax prior year adjustments	–	–	2
Current tax prior year adjustments	1	(2)	–
Other	1	–	1
Tax charge	**(18)**	(44)	(10)

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

The deferred tax asset is based on a corporation tax rate of 19-25% depending on when an asset is expected to unwind (2020: 19%). The UK corporate tax rate is set to increase to 25% from 1 April 2023.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

6. Pension schemes

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

Defined benefit pension schemes

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Lloyd's Pension Scheme	(102)	(165)	(183)
Overseas pension schemes	(4)	(3)	(4)
Total scheme deficits	**(106)**	(168)	(187)

The Lloyd's Pension Scheme

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

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

On an IAS 19 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2021 was £102m (30 June 2020: £165m, 31 December 2020: £183m) before the allowance of deferred tax.

An actuarial pre-tax gain of £82m has been recognised in the six months ended 30 June 2021 (30 June 2020: £27m loss, 31 December 2020: £54m loss). The gain is mainly due to the increase in the discount rate from 1.5% to 2.0% driven by an increase in bond yields which has been partially offset by an increase in the expected levels of future inflation.

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

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Actuarial value of scheme liabilities at 1 January	1,089	997	997
Interest cost on Pension Scheme liabilities	8	10	19
Current service cost (net of employee contributions)	–	–	1
Benefits paid and administrative expenses	(13)	(14)	(29)
Experience gains arising in scheme liabilities	(12)	(1)	(1)
Change in assumptions underlying the present value of the scheme liabilities			
Financial assumption change	(70)	41	102
Actuarial value of scheme liabilities at 30 June/31 December	**1,002**	1,033	1,089

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

6. Pension schemes continued

Changes in fair value of plan assets were:

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Fair value of scheme assets at 1 January	906	860	860
Expected return on Pension Scheme assets	7	9	17
Employer contributions	–	–	11
Benefits paid	(13)	(14)	(28)
Actuarial gain on Scheme assets	–	13	47
Administrative expenses	–	–	(1)
Fair value of scheme assets at 30 June/31 December	**900**	868	906

The last completed formal actuarial valuation of the Scheme was carried out by Willis Towers Watson as at 30 June 2019 using the projected unit credit method. The total market value of the Scheme's assets at the date of the valuation was £810m and the total value of accrued liabilities was £889m, showing a funding deficit of £79m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions.

Sensitivity of pension obligation to changes in assumptions

A 1% pa increase in the discount rate to be adopted as at 30 June 2021 would result in a reduction to the balance sheet liabilities at that date of around 15%, or approximately £150m. A corresponding 1% pa decrease would increase liabilities at that date by around 20%, or approximately £200m.

A 1% pa increase in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2021, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the balance sheet liabilities at that date of around 7%, or approximately £70m. A corresponding 1% pa decrease would reduce liabilities at that date by around 8%, or approximately £80m.

A change in the mortality assumptions could have a significant impact on the liabilities. For instance, if members aged 60 were instead expected to live for one year longer, with all members' life expectancies increasing by a proportionate amount, then the liability as at 30 June 2021 would be around 4% higher, or approximately £40m. Similarly, if members aged 60 were instead expected to live for one year less, then the liability would be around 3% lower, or approximately £30m.

Overseas pension schemes

The Corporation also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2021 is £4m (30 June 2020: £3m, 31 December 2020: £4m).

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

7. Intangible assets

Software development

	Total £m
At 30 June 2020	52
Additions	38
At 31 December 2020	90
Additions	14
At 30 June 2021	**104**
Amortisation	
At 30 June 2020	(9)
Amortisation charge for the period	(1)
At 31 December 2020	(10)
Amortisation charge for the period	(3)
At 30 June 2021	**(13)**
Impairment	
At 30 June 2020	–
Impairment charge for the period	(26)
At 31 December 2020	(26)
Impairment charge for the period	–
At 30 June 2021	**(26)**
Net book value at 30 June 2021	**65**
Net book value at 31 December 2020	54
Net book value at 30 June 2020	43

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

8. Financial investments

	Note	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 (audited) £m
Financial investments at amortised cost				
Statutory insurance deposits	8(a)	748	773	807
Short-term and security deposits	8(a)	787	516	626
Total financial investments at amortised cost		**1,535**	1,289	1,433
Financial investments at fair value through profit and loss	8(b)	2,828	2,869	2,676
Financial investments		**4,363**	4,158	4,109

(a) Financial investments at amortised cost

Statutory insurance deposits	**30 June 2021 Securities £m**	**30 June 2021 Deposits £m**	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 (audited) £m
Amortised cost at 1 January	7	800	807	696	696
Additions at cost	13	298	311	644	916
Disposal proceeds	(11)	(324)	(335)	(620)	(829)
(Deficit)/surplus on the sale and impact of changes in FX	–	(35)	(35)	53	24
Value at 30 June/31 December	**9**	**739**	**748**	773	807

Analysis of statutory insurance deposits	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 (audited) £m
AAA	1	1	1
AA	495	485	544
A	235	266	243
BBB	6	9	8
Other	11	12	11
Total of statutory insurance deposits	**748**	773	807

Analysis of short-term and security deposits	**30 June 2021 £m**	30 June 2020 £m	31 December 2020 (audited) £m
AAA	–	49	–
AA	–	169	6
A	778	253	607
BBB	9	45	13
Total of short-term and security deposits	**787**	516	626

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

8. Financial investments continued

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

	30 June 2021 Corporation of Lloyd's £m	30 June 2021 Lloyd's Central Fund £m	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Market value at 1 January	533	2,143	2,676	2,788	2,788
Additions at cost	237	1,466	1,703	789	2,158
Disposal proceeds	(234)	(1,314)	(1,548)	(774)	(2,354)
(Deficit)/surplus on the sale and impact of changes in FX	(25)	22	(3)	66	84
Fair value at 30 June/31 December	**511**	**2,317**	**2,828**	2,869	2,676
Analysis of securities:					
Listed securities					
Fixed interest:					
Government	285	1,113	1,398	974	1,427
Corporate securities	226	480	706	802	662
Total fixed interest	511	1,593	2,104	1,776	2,089
Emerging markets	–	77	77	152	71
Global equities	–	485	485	380	435
Fixed income absolute return fund	–	–	–	100	–
Total listed securities	**511**	**2,155**	**2,666**	2,408	2,595
Unlisted securities					
Hedge funds	–	14	14	156	13
Multi-asset	–	68	68	305	68
Loans and advances	–	80	80	–	–
Total unlisted securities	**–**	**162**	**162**	461	81
Market value	**511**	**2,317**	**2,828**	2,869	2,676

Analysis of securities	30 June 2021 Corporation of Lloyd's £m	30 June 2021 Lloyd's Central Fund £m	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
AAA	102	254	356	447	593
AA	151	773	924	614	703
A	78	337	415	462	418
BBB	169	243	412	335	379
Other	11	710	721	1,011	583
Total securities	**511**	**2,317**	**2,828**	2,869	2,676

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

8. Financial investments continued

(c) Fair value hierarchy

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

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

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

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

				30 June 2021
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Fixed income securities	1,399	705	–	2,104
Equity investments	485	77	–	562
Unlisted securities	–	82	–	82
Loans and advances	–	–	80	80
Total financial investments	**1,884**	**864**	**80**	**2,828**
Derivative financial instruments				
Currency conversion service	–	1	–	1
Other forward foreign exchange contracts	–	28	–	28
Interest rate swaps	–	3	–	3
Total derivative financial instruments	**–**	**32**	**–**	**32**
Total financial assets at fair value through profit or loss	**1,884**	**896**	**80**	**2,860**
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Currency conversion service	–	(2)	–	(2)
Other forward foreign exchange contracts	–	(1)	–	(1)
Interest rate swaps	–	(7)	–	(7)
Equity futures	–	(5)	–	(5)
Total derivative financial instruments	**–**	**(15)**	**–**	**(15)**
Total financial liabilities at fair value through profit or loss	**–**	**(15)**	**–**	**(15)**

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

8. Financial investments continued

(c) Fair value hierarchy continued

	30 June 2020		
	Level 1 £m	Level 2 £m	Total £m
Financial assets at fair value through profit or loss			
Listed securities	974	802	1,776
Equity investments	380	152	532
Fixed income absolute return fund	–	100	100
Unlisted securities	–	461	461
Total financial investments	1,354	1,515	2,869
Derivative financial instruments			
Currency conversion service	–	4	4
Other forward foreign exchange contracts	–	6	6
Interest rate swaps	–	7	7
Equity futures	–	6	6
Total derivative financial instruments	–	23	23
Total financial assets at fair value through profit or loss	1,354	1,538	2,892
Financial liabilities at fair value through profit or loss			
Derivative financial instruments			
Currency conversion service	–	(3)	(3)
Other forward foreign exchange contracts	–	(16)	(16)
Interest rate swaps	–	(12)	(12)
Total derivative financial instruments	–	(31)	(31)
Total financial liabilities at fair value through profit or loss	–	(31)	(31)

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

8. Financial investments continued

(c) Fair value hierarchy continued

	31 December 2020 (audited)		
	Level 1 £m	Level 2 £m	Total £m
Financial assets at fair value through profit or loss			
Fixed income securities	1,427	662	2,089
Equity investments	435	71	506
Unlisted securities	–	81	81
Total financial investments	1,862	814	2,676
Derivative financial instruments			
Currency conversion service	–	2	2
Other forward foreign exchange contracts	–	13	13
Interest rate swaps	–	6	6
Equity futures	–	–	–
Total derivative financial instruments	–	21	21
Total financial assets at fair value through profit or loss	1,862	835	2,697
Financial liabilities at fair value through profit or loss			
Derivative financial instruments			
Currency conversion service	–	(2)	(2)
Other forward foreign exchange contracts	–	(15)	(15)
Interest rate swaps	–	(10)	(10)
Equity futures	–	(5)	(5)
Total derivative financial instruments	–	(32)	(32)
Total financial liabilities at fair value through profit or loss	–	(32)	(32)

Unlisted securities

Fair values are determined using a pricing hierarchy structure for valuation purposes. The valuation principles employed are to provide the most accurate valuations, while also working to provide independent valuations. The pricing process employs a hierarchy that utilises numerous third party sources in a tiered system. The standard pricing hierarchy includes the following independent pricing vendors: FT Interactive Data; Reuters; Barclays Indices; Citigroup Indices; Merrill Lynch Indices; SNP (Standard & Poor's); Broker/Dealer Pricing; Fair Value/Model Pricing and Spread Pricing.

Where estimates are used to value unlisted securities, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, changing one or more of the assumptions to reasonably possible alternative assumptions is unlikely to result in a significant change in fair value.

Loans and advances

Central Fund's loans and advances have been classified as level 3 fair value investment.

The below table sets out reconciliation from the opening balance to the closing balance in level 3 fair values.

	£m
As at 1 January 2021	–
Purchases	80
Sales	–
Transfers to/(from)	–
Total net gains recognised in profit and loss	–
As at 30 June 2021	**80**

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

9. Syndicate loans

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
2020 Syndicate loan (November)	285	–	285
2020 Syndicate loan (June)	119	120	119
2019 Syndicate loan	110	110	110
Principal loan balance	**514**	230	514

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any interest. Interest is only recognised once the holders' right to receive payment is confirmed. At 30 June 2021 the cumulative interest to date, not yet confirmed, totals £7m (30 June 2020: £2m, 31 December 2020: £9m).

Syndicate loans are accounted for as an equity instrument in the Society's financial statements and as such any interest paid to loan holders is recognised as a dividend payment and recorded as a reduction in equity. A dividend of £10m (30 June 2020: £4m, 31 December 2020: £4m) has been paid to syndicates in respect of the 2019 and June 2020 tranches. The dividend was approved by Council on 30 March 2021 and 22 June 2021 for the 2019 and June 2020 loans respectively.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

10. Senior and subordinated debt

i) Senior notes

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Details of loans payable wholly or partly after more than five years:			
2.48% senior debt of £60m maturing Jan 2030 (Sterling 2020)	60	60	60
2.48% senior debt of £40m maturing Jan 2031 (Sterling 2020)	40	40	40
2.61% senior debt of £70m maturing Jan 2035 (Sterling 2020)	70	70	70
2.81% senior debt of £130m maturing Jan 2045 (Sterling 2020)	130	130	130
Less issue costs and discount on issue to be charged/unwound in future years	(1)	(1)	(1)
Total	**299**	299	299

To ensure funding is available to meet the near and medium-term cash requirements of the Future at Lloyd's, the Society took advantage of the low interest rate environment and placed £300m of senior debt on 21 January 2020, thereby avoiding any increase in market levies. The debt is placed with six different investors across four tranches, with maturity profiles ranging from 10 to 25 years. The average coupon rate is 2.6%.

ii) Subordinated notes

	30 June 2021 £m	30 June 2020 £m	31 December 2020 (audited) £m
Details of loans payable wholly or partly after more than five years:			
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	300	300	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500	500	500
	800	800	800
Less issue costs to be charged in future years	(3)	(3)	(3)
Less discount on issue to be unwound in future years	(1)	(2)	(2)
Total	**796**	795	795

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

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

The Sterling 2017 Notes issued on 7 February 2017 have a first call date on 7 February 2027 and mature on 7 February 2047 and bear interest at a rate of 4.875% per annum, payable annually in arrears on 7 February in each year.

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

11. Cash generated from operations

	Note	**Six months ended 30 June 2021 £m**	Six months ended 30 June 2020 £m	Full year 2020 (audited) £m
Surplus before tax		77	218	56
Net finance costs/(income)	4	24	(69)	57
Share of profits of associates and joint ventures		(5)	(5)	(12)
Operating surplus		**96**	144	101
Adjustments for:				
Amortisation of intangible assets	7	3	2	3
Depreciation of plant and equipment		2	3	3
Depreciation of right-of-use asset		10	10	21
Impairment losses		–	–	27
Operating surplus before working capital changes		**111**	159	155
Changes in pension obligations		1	1	(7)
Increase in receivables		(65)	(418)	(5,700)
Increase in payables		526	445	5,599
Loan recoveries		2	–	–
Decrease in provisions		(11)	(6)	(14)
Cash generated from operations		**564**	181	33

Notes to the Group Interim Financial Statements continued

(As at 30 June 2021)

12. Impact of COVID-19

The Society's financial risks are largely unchanged from the 2020 Annual Report, (page 113, Financial Review). When considering the impact of COVID-19, the Corporation continues to monitor and respond to the changing risk environment. The key areas of focus are:

Market risk

In response to the impact of COVID-19 on the financial markets, the Society completed a de-risking plan for the Central Fund investment portfolio to mitigate the impact of market volatility and to lower market risk. Information on the performance of the Society's investment portfolio for the period is provided in the Financial Review on page 23. The valuation of the Lloyd's Pension Scheme requires significant judgement and is significantly impacted by short-term market movements. In particular, the increase in market bond yields during the period has led to a decrease in the actuarial value of Scheme liabilities at 30 June 2021. Further details, including sensitivity analysis, are included in note 6.

Credit risk

The Society mitigates counterparty credit risk by ensuring investments are made in high quality instruments. Further details of the Society's investment portfolio are provided in note 8. The Society is exposed to counterparty credit risk on the insurance contract assets, all of which is due from Syndicates. The Society continues to monitor the underwriting profitability by responding to the risk appetite of the market, adjusting business planning for future years. Regular interaction is maintained with the regulatory bodies and the government to ensure Lloyd's continues to operate correctly and efficiently in the current business market. Lloyd's will continue to assess syndicate profitability and provide provisions for insolvent members as necessary.

Liquidity risk

The Society continues to monitor its liquidity requirements to hold enough liquidity assets to meet liabilities as they fall due. Obligations include interest payments on the senior and subordinated debt, lease payments on the 1986 building and other properties under lease and repair and maintenance costs of the 1986 building, which have been provided for. The Society has a strong free cash balance at 30 June 2021 of £497m (31 December 2020: £460m), with additional holdings in short-term investments, making the Society's liquidity very strong.

Foreign exchange risk

The Society's strategy remains unchanged from the 2020 Annual Report, with close monitoring of the Society's exposure to foreign currency transactions, along with the use of forward foreign exchange contracts to mitigate a portion of the investment exposure governed by Lloyd's risk appetite. As a result of this strategy, the Society has a significant US Dollar exposure. As Sterling strengthened against US Dollar, the Society recorded gains on foreign exchange of £11m, boosting the investment return for the period. Further details are provided in the Financial Review on page 23.

Interest rate risk

Lloyd's risk appetite is managed using interest rate swaps, and with the increased investment in government bonds and cash, rather than higher yielding investments, the risk has been reduced.

Independent Review Report to the Council of Lloyd's

Report on the Society of Lloyd's condensed consolidated interim financial statements

Our conclusion

We have reviewed the Society of Lloyd's condensed consolidated interim financial statements (the "interim financial statements") in the Society Report for the six-month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as issued by the IASB.

What we have reviewed

The interim financial statements comprise:

- the Group Statement of Financial Position as at 30 June 2021;
- the Group Income Statement for the period then ended;
- the Group Statement of Comprehensive Income for the period then ended;
- the Group Statement of Cash Flows for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the Notes to the Group Interim Financial Statements.

The interim financial statements included in the Society Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as issued by the IASB.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Council of Lloyd's

The Society Report, including the interim financial statements, is the responsibility of, and has been approved by, the Council of Lloyd's.

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 September 2021

Alternative Performance Measures (APMs)

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

Metric	Applicable part of the Interim Report	Definition	Reason for use
Combined ratio	Market Results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
Expense ratio	Market Results	Expense ratio is a measure of the level of expenses associated with underwriting activity. It is the ratio of net operating expenses to earned premiums net of reinsurance.	Expense ratio is used to measure the level of expenses associated with underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market expenses to its peers.
Underwriting result	Market Results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
Underlying combined ratio	Market Results	Underlying combined ratio is a measure of the profitability of the underwriting activity excluding major claims. It is the ratio of net operating expenses plus claims incurred, excluding major claims, to earned premium net of reinsurance.	Underlying combined ratio is used to measure the profitability of the underwriting activity of the Lloyd's market, excluding the impact of major claims.
Return on capital	Market Results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value-creating potential of the Lloyd's market.
Investment return	Market Results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
Solvency coverage ratio	Market Results and Society Report	Under the Solvency II regime Lloyd's monitors the amount of eligible capital available to cover its market-wide SCR (MWSCR) and central SCR (CSCR). This is calculated as total eligible capital as a percentage of the respective solvency capital requirements.	Solvency coverage ratios are used to ensure that the society and its members hold sufficient capital to meet Lloyd's regulatory capital requirements, as well as to ensure Lloyd's solvency risk appetites are satisfied.
Budgeted operating surplus	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
Free cash balances	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
Operating surplus	Society Report	The operating surplus is calculated as income from members (including subscriptions, Central Fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.

Sharing risk
to create a
braver world

www.lloyds.com/hyresults2021