LLOYD'S

Six months ended 30 June 2016

Interim Report 2016

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2016 At a Glance

Financial highlights

- Lloyd's market made a profit of £1,461m (2015: £1,194m).
- Combined ratio of 98.0% (2015: 89.5%).
- Gross written premium of £16,307m (2015: £15,513m).
- Capital, reserves and subordinated loan notes stand at £26,617m (2015: £22,844m).

Gross written premium

£m	Half year	Full year
2012	14,768	25,173
2013	15,496	25,615
2014	14,481	25,259
2015	15,513	26,690
2016	16,307	

Result before tax

£m	Half year	Full year
2012	1,530	2,771
2013	1,379	3,205
2014	1,652	3,016
2015	1,194	2,122
2016	1,461	

Capital, reserves and subordinated debt and securities

£m	Half year	Full year
2012	20,055	20,193
2013	20,873	21,107
2014	20,780	23,413
2015	22,844	25,098
2016	26,617	

Central assets

£m	Half year	Full year
2012	2,459	2,485
2013	2,362	2,384
2014	2,447	2,578
2015	2,655	2,645
2016	2,745	

Return on capital (annualised)

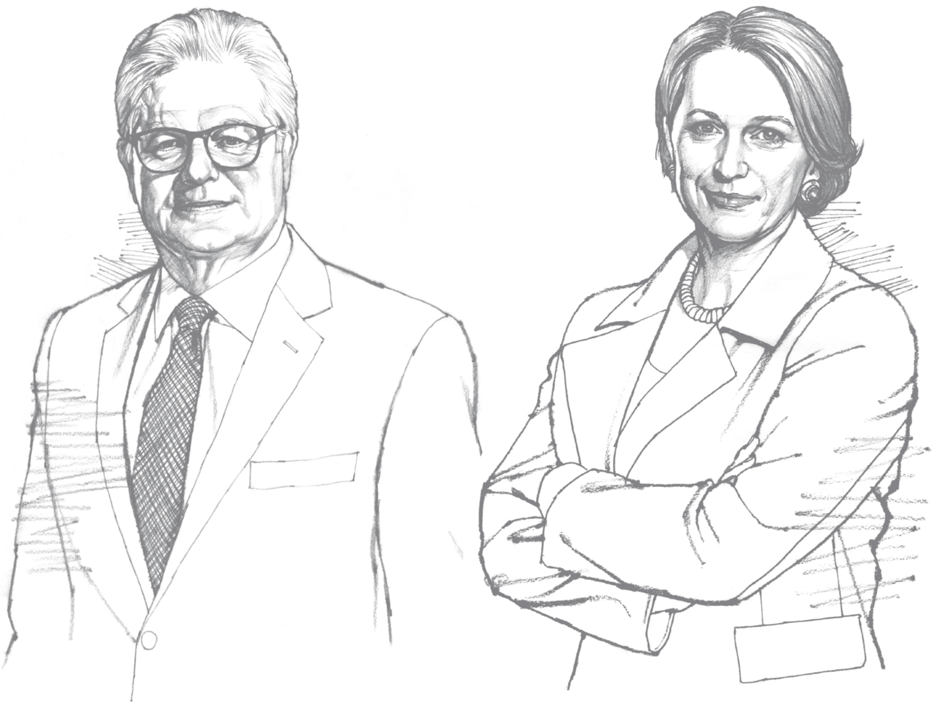
%	Half year	Full year
2012	16.4	14.8
2013	14.0	16.2
2014	16.3	14.1
2015	10.7	9.1
2016	11.7	

Combined ratio

%	Half year	Full year
2012	88.7	91.1
2013	86.9	86.8
2014	87.4	88.4
2015	89.5	90.0
2016	98.0	

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

Joint Statement from the Chairman and Chief Executive



The Lloyd's market recorded a profit of £1.46bn (2015: £1.20bn) with a combined ratio of 98.0% (2015: 89.5%) for the first six months of 2016. Annualised return on capital is 11.7% (2015: 10.7%).

Investment return rose to 1.8%, which was notably stronger than the return recorded for the first six months of 2015 (2015: 0.6%), thanks in part to a downward yield shift in our bond portfolio.

The strengthening of the US dollar relative to sterling contributed to foreign exchange gains of £0.30bn with the market holding a surplus of US dollar assets over liabilities.

This period's result, therefore, benefited from yield curve movements and the strengthening of the US dollar against sterling post the EU referendum, neither of which represent sustainable profitability. The underwriting result clearly reflects the challenging market conditions we have previously reported.

With continuing low interest rates, that show no immediate sign of changing, an unparalleled amount of capital coming into the market and the impact of the Fort McMurray fires in Alberta, Canada on major claims, our underwriting profit fell by £0.85bn on the previous period. Premium rates continue to be under pressure.

Lloyd's combined ratio increased to 98.0% for the first six months of 2016 due to an increase in expense and attritional loss ratios, an increase in catastrophe losses, and a reduction in reserve releases. The rising attritional loss and expense ratios pushed Lloyd's combined ratio higher than the competitor group weighted average (95.1%) for the first time since 2011.

Lloyd's capital position does remain strong, increasing 6% on December 2015 to £26.6bn, as do our financial ratings. Our rating with Fitch is AA- (Very Strong), A.M. Best reaffirmed our A (excellent) status as did Standard & Poor's at A+ (strong) which is a significant

Joint Statement from the Chairman and Chief Executive

vote of confidence in our ability to successfully navigate our way through these difficult times.

Overall, while these results show the impact of the highly competitive environment we are in, they demonstrate that Lloyd's is in robust financial shape.

Gross written premiums have increased by 5% to £16.31bn. Excluding the effect of foreign exchange movements, gross written premiums have increased by 0.6%. While rates have continued to decline, volumes have increased, reflecting the strong footprint Lloyd's has globally in the specialist insurance and reinsurance market.

New entrants and licenses continue to expand the global reach of the market to geographically diverse areas, offering new lines of business. The United States remains a strong market for Lloyd's with 41% of gross written premium as well as those traditional markets where we have enjoyed success for many decades. However our ability to continue to grow in the key emerging markets is vital.

In 2016 we celebrated the first anniversary of the Dubai platform as well as opening a new office in Bogota, Colombia. We have also applied for an Indian reinsurance branch based in Mumbai and an onshore reinsurance license in Malaysia. As these economies continue to grow and thrive, Lloyd's is well placed to address the significant insurance gaps that are still prevalent.

In London, the first half of 2016 was dominated by the United Kingdom's referendum on its membership of the European Union and subsequent decision to leave.

It is important to be clear that the referendum result has no immediate impact on the UK's ability to continue trading with the EU. The UK continues to be a full and active member of the EU with access to the single market until the point that negotiations on its departure are concluded and an exit formally occurs. This means that we continue to trade under the current passporting regime.

As you would expect, we are advancing our plans for how Lloyd's will continue trading with EU countries when the UK's membership of the EU ends. Continental Europe will continue to be an important market for Lloyd's, as it accounts for 11% of gross written premium and we fully expect to maintain our position in the new post-Brexit landscape.

The referendum outcome has meant that we have re-prioritised work within the Corporation to ensure we are using our resources appropriately. Therefore we have decided to pause our work on the Lloyd's Index, but will continue discussions with the Insurance Linked Securities Taskforce over the coming months.

This year has seen significant progress in the modernisation of the market with the delivery of some key London Market Target Operating Model (TOM) milestones. The electronic placing platform PPL went live in July and the first phase of the Central Services Refresh Programme (CSRP) was implemented in the first half of 2016.

During the first half we have said goodbye to Tom Bolt, our performance management director, and to Sean McGovern, our legal counsel and chief risk officer. Tom and Sean made outstanding contributions to Lloyd's over 7 and 22 years respectively. We wish them well in their new roles.

We are delighted to welcome Jon Hancock to Lloyd's as performance management director. He will be joining us at the beginning of December.

On the non-executive front, Bruce van Saun retired from the Franchise Board. We will miss his excellent counsel and advice. In his place we have appointed Richard Keers, CFO of Schroders, who will become Chair of the Audit committee later this year.

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Market Commentary

The Lloyd's market writes specialist property and casualty insurance and reinsurance business in over 200 countries and territories worldwide. The pre-tax profit for the first six months of 2016 is £1.46bn (June 2015: £1.20bn).

Underwriting review

Gross written premiums for the six months to June 2016 were £16.31bn (June 2015: £15.51bn) representing an increase of 5%. After adjusting for the impact of foreign exchange rate movements the underlying increase in gross written premium was 0.6%. Rates have continued to decline, however these have been offset by increases in volume.

The growth in premium volumes is mainly attributed to the direct and facultative Property and Casualty classes, where Lloyd's has developed its new products and distribution primarily through coverholders in the developed markets, especially the US. The financial and professional lines, within the Casualty class, have seen the largest growth, with Cyber being the most significant, as new buyers increase demand for this product. Other major classes have been static or reducing, while Energy has suffered from both falling oil prices and lower insurance rates. Sustained price competition in all major classes has resulted in a 3.5% decrease in the aggregate risk adjusted price on renewal business.

The Lloyd's market's year accident year ratio for the six months to June 2016 was 103.7% (June 2015: 97.5%). This deterioration is partly explained by the increase in the level of claims arising from major losses as well as by an increase in smaller, attritional, loss activity. Both the Reinsurance and Property classes have been impacted by a number of natural peril events including earthquakes in Japan and Ecuador, and losses from several storms in the southern states of the USA. The largest of the events is the wildfire that struck Fort McMurray in Canada in May 2016. This was a more costly event than any in the first half of 2015.

Major losses added 5.7% to the combined ratio for the first half of 2016 compared to 2.7% in the equivalent period in 2015.

While only a few classes were impacted by major losses nearly all are experiencing an increase in attritional claims experience as rating levels decline, deductibles are eroded and policy wordings widen.

Prior year reserve releases for the period were £0.60bn (June 2015: £0.81bn) reducing the overall combined ratio by 5.7% (June 2015: 8.0%). Across all classes claims development has been better than expected continuing the trend for surpluses on prior year reserves, although to a lesser extent than in the interim results of previous years.

While the first six months have generally seen a return to more normal levels of loss activity, there has been no significant change to the levels of price and trading competition in nearly all classes of business and in most markets. Also, more broadly, there remains considerable economic as well as political uncertainty which will continue to influence risk management and risk protection behaviour.

The balance sheet reports stable market level capital and reserves of £26.62bn, an increase on the year end figure of £25.10bn. The capital base remains in a strong position to meet challenges in the second half of the year.

Market Commentary

Investment review

Financial markets were particularly volatile over the first of half of 2016. The period began with fears of global recession causing a sharp fall in risk asset valuations and ended with an unexpected EU referendum result spurring further investor reaction, particularly in UK and Eurozone markets. Currency markets exhibited a pronounced reaction marked by the sterling depreciation versus the US dollar. Risk assets generated mixed returns: developed equity markets struggled to produce positive returns while emerging market and commodity based investment produced very strong returns. Bond investments performed well, benefiting from capital appreciation as risk free yields fell over the period.

Investment return for the six months to June 2016 was £1.09bn or 1.8% (June 2015: £0.34bn, 0.6%). This solid level of return, which showed marked improvement from last year, was driven by the strong performance from high quality fixed interest assets which account for a major share of investments at Lloyd's.

Market Results

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

Statement of Council's responsibilities

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

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

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

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

Interim pro forma financial statements (PFFS)

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

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

Society of Lloyd's Group interim financial statements

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

Pro Forma Profit and Loss Account

For the six months ended 30 June 2016

	Six months ended 30 June 2016		Six months ended 30 June 2015		Full year 2015	
Technical account	£m	£m	£m	£m	£m	£m
Gross written premiums						
Continuing operations		16,308		15,512		26,690
Discontinued operations		(1)		1		–
		16,307		15,513		26,690
Outward reinsurance premiums		(4,324)		(4,081)		(5,667)
Premiums written, net of reinsurance		11,983		11,432		21,023
Change in the gross provision for unearned premiums	(2,876)		(2,883)		(803)	
Change in the provision for unearned premiums, reinsurers' share	1,426		1,488		345	
		(1,450)		(1,395)		(458)
Earned premiums, net of reinsurance		10,533		10,037		20,565
Allocated investment return transferred from the non-technical account		630		234		302
		11,163		10,271		20,867
Claims paid						
Gross amount	6,168		6,594		12,477	
Reinsurers' share	(1,044)		(1,532)		(2,846)	
		5,124		5,062		9,631
Change in provision for claims						
Gross amount	1,643		(252)		7	
Reinsurers' share	(719)		208		624	
		924		(44)		631
Claims incurred, net of reinsurance		6,048		5,018		10,262
Acquisition costs	3,666		3,503		6,181	
Change in deferred acquisition costs	(577)		(623)		(268)	
Administrative expenses	1,190		1,086		2,343	
Net operating expenses		4,279		3,966		8,256
Balance on the technical account for general business		836		1,287		2,349
Attributable to						
Continuing operations		836		1,269		2,349
Discontinued operations		–		18		–
Total		836		1,287		2,349
Non-technical account						
Balance on the technical account for general business		836		1,287		2,349
Investment return on syndicate assets	710		237		273	
Notional investment return on funds at Lloyd's	223		76		86	
Investment return on Society assets	154		26		43	
	1,087		339		402	
Allocated investment return transferred to the technical account	(630)		(234)		(302)	
		457		105		100
Profit/(loss) on exchange		301		(85)		(70)
Other income		36		32		56
Other expenses		(169)		(145)		(313)
Result for the financial period before tax		1,461		1,194		2,122
Attributable to						
Continuing operations		1,461		1,176		2,122
Discontinued operations		–		18		–
Total		1,461		1,194		2,122
Statement of comprehensive income						
Result for the financial period		1,461		1,194		2,122
Other comprehensive income		216		(64)		62
Total comprehensive income		1,677		1,130		2,184

Pro Forma Balance Sheet

At 30 June 2016

		30 June 2016		30 June 2015		31 December 2015	
Financial investments	Note	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities		7,359		6,721		6,908	
Debt securities and other fixed income securities		36,691		29,192		33,077	
Participation in investment pools		1,230		1,499		1,203	
Loans and deposits with credit institutions		5,246		4,666		4,580	
Other investments		101		90		106	
Total investments			50,627		42,168		45,874
Deposits with ceding undertakings			3		5		3
Reinsurers' share of technical provisions							
Provision for unearned premiums		3,792		3,264		2,368	
Claims outstanding		10,413		8,676		8,610	
			14,205		11,940		10,978
Debtors							
Debtors arising out of direct insurance operations		9,269		7,117		7,081	
Debtors arising out of reinsurance operations		5,613		5,195		4,008	
Other debtors		1,041		1,074		763	
			15,923		13,386		11,852
Other assets							
Tangible assets		31		28		32	
Cash at bank and in hand	9	11,902		10,369		11,026	
Other		82		39		42	
			12,015		10,436		11,100
Prepayments and accrued income							
Accrued interest and rent		95		31		69	
Deferred acquisition costs		4,489		3,798		3,585	
Other prepayments and accrued income		308		299		168	
			4,892		4,128		3,822
Total assets			97,665		82,063		83,629
Capital and reserves							
Members' funds at Lloyd's	6	20,108		16,208		17,840	
Members' balances		3,764		3,981		4,613	
Members' assets (held severally)		23,872		20,189		22,453	
Central reserves (mutual assets)		1,863		1,769		1,763	
			25,735		21,958		24,216
Subordinated debt			494		498		494
Subordinated perpetual capital securities			388		388		388
Capital, reserves and subordinated debt and securities			26,617		22,844		25,098
Technical provisions							
Provision for unearned premiums		17,957		15,258		13,723	
Claims outstanding		44,069		37,258		38,833	
			62,026		52,516		52,556
Deposits received from reinsurers			94		41		57
Creditors							
Creditors arising out of direct insurance operations		756		526		615	
Creditors arising out of reinsurance operations		5,235		4,033		3,311	
Other creditors including taxation		2,177		1,553		1,451	
			8,168		6,112		5,377
Accruals and deferred income			760		550		541
Total liabilities			97,665		82,063		83,629

Pro Forma Statement of Cash Flows

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Full year 2015 £m
Result for the financial period before tax		1,461	1,194	2,122
Increase/(decrease) in gross technical provisions		8,793	1,422	1,382
(Increase)/decrease in reinsurers' share of gross technical provisions		(3,120)	(853)	(196)
(Increase)/decrease in debtors		(4,735)	(3,321)	(1,580)
Increase/(decrease) in creditors		3,012	1,348	702
Movement in other assets/liabilities		(572)	(196)	(265)
Investment return		(1,087)	(340)	(402)
Depreciation		5	6	10
Tax paid		(11)	(11)	(21)
Other		46	(13)	(11)
Net cash flows from operating activities		3,792	(764)	1,741
Investing activities				
Purchase of equity and debt instruments		(21,373)	(17,805)	(34,855)
Sale of equity and debt instruments		22,047	20,736	35,386
Purchase of derivatives		(61)	(18)	(35)
Sale of derivatives		21	15	23
Investment income received		366	298	553
Net movement in Funds at Lloyd's		678	198	895
Other		(2,149)	(247)	(52)
Net cash flows from investing activities		(471)	3,177	1,915
Financing activities				
Net profits paid to members		(2,254)	(2,713)	(2,742)
Net capital transferred into/(out of) syndicate premium trust funds		39	586	205
Interest paid on subordinated notes		(29)	(29)	(53)
Other		(9)	(14)	5
Net cash flows from financing activities		(2,253)	(2,170)	(2,585)
Net increase/(decrease) in cash and cash equivalents		1,068	243	1,071
Cash and cash equivalents at 1 January		12,566	11,525	11,525
Exchange differences on cash and cash equivalents		141	(38)	(30)
Cash and cash equivalents at 30 June/31 December	10	13,775	11,730	12,566

Notes to the Interim Pro Forma Financial Statements

At 30 June 2016

1. The Interim Pro Forma Financial Statements

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

2. Basis of preparation

General

The interim PFFS include the aggregate results as reported separately by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 20 to 48. The syndicate returns include the syndicate level assets, which represent the first link in the Chain of Security.

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

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

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

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

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

The profit and loss account in the interim PFFS aggregates the syndicate interim underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the interim PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Inter-syndicate reinsurances are not eliminated in the interim PFFS except for those between host syndicates and SPA. Overall, therefore, the interim PFFS aggregate the results and resources of the Society and its members and reflect all the links in Lloyd's Chain of Security. The interim PFFS may, therefore, be used as a reasonable presentation of the results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

The consolidated financial information of the Society of Lloyd's, presented on pages 20 to 48, is prepared in accordance with International Financial Reporting Standards ('IFRS'). When included in the interim PFFS the Society of Lloyd's financial information is prepared in accordance with UK GAAP. No adjustments have been made to the information incorporated into the interim PFFS as we do not consider there to be any material accounting policy differences between the existing IFRS accounting policies and the recognition and measurement requirements of UK GAAP.

Statement of compliance

Whilst Lloyd's is not an insurance company, the interim PFFS have where possible been prepared in compliance with United Kingdom Accounting Standards, including FRS 102 and FRS 103. 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.

Notes to the Interim Pro Forma Financial Statements continued

At 30 June 2016

2. Basis of preparation continued

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 includes the tax provisions in the Society interim financial statements.

Funds at Lloyd's

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

FAL is available to meet cash calls made on the member in respect of a syndicate. The assets in FAL must be readily realisable, may include letters of credit and bank and other guarantees, and must be at least equivalent to the aggregate of the member's economic capital assessment (ECA) requirement and certain liabilities in respect of its underwriting business. Each member's ECA to support its underwriting at Lloyd's is determined using Lloyd's Solvency Capital Requirement to ultimate capital setting methodology.

Notional Investment Return on FAL

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

Society of Lloyd's interim financial statements

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

Transactions between syndicates and the Society

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

- Central Fund contributions, members' subscriptions and other market charges levied by the Society are reported as net operating expenses in the syndicate returns and as income in the Society interim financial statements.
- Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have the resources to meet those calls are reported as a profit and loss charge and balance sheet liability in the Society interim financial statements. The Central Fund's other income includes recoveries from insolvent members. The syndicate returns include those members' results and balances.
- Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society interim financial statements.

Notes to the Interim Pro Forma Financial Statements continued

At 30 June 2016

2. Basis of preparation continued

Special purpose arrangements

Due to the nature of special purpose arrangements ('SPA'), the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPA annual accounts. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the interim PFFS with a more meaningful presentation of the market's figures, all the reinsurance transactions of the SPA have been eliminated. The key impact of this elimination is that gross written premium is reduced by £336m (June 2015: £309m, December 2015: £790m). The elimination does not affect the interim PFFS result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

The subordinated debt and securities

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

3. Accounting policies notes

A. Syndicate returns

The syndicate level information within the 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 2015.

B. Funds at Lloyd's

Funds at Lloyd's are valued in accordance with their market value at the period end, and using period end exchange rates. Investments are stated at 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 overseas deposits are stated at cost.

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

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 2015 Annual Report.

C. Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's financial statements are in accordance with International Financial Reporting Standards ('IFRS') and are consistent with those adopted in the 2015 Annual Report. There are no material adjustments required to the Society information to present it on a basis consistent with the syndicate results in the interim PFFS.

Notes to the Interim Pro Forma Financial Statements continued

At 30 June 2016

4. Variability

Movements in reserves are based upon best estimates as at 30 June 2016 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur.

5. Discontinued operations

Continuing/discontinued operations represent the analysis reported in the syndicate returns between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates.

Where a syndicate has ceased underwriting, its operations are reported as discontinued in the syndicate annual accounts. Where the entire book of business continues to be written by another syndicate, however, an adjustment is made in the interim PFFS to reflect the continuing nature of this business to Lloyd's as a whole. Where business has been reported as discontinued in 2016, the results for that business have also been reported as discontinued in the 2015 comparative figures.

6. Members' funds at Lloyd's

The valuation of members' FAL in the balance sheet totals £20,108m (June 2015: £16,208m, December 2015: £17,840m). The notional investment return on FAL included in the non-technical profit and loss account totals £223m (June 2015: £76m, December 2015: £86m).

7. Society of Lloyd's

The results of the Group interim financial statements of the Society, after adjustments to eliminate transactions between the syndicates and the Society, included in the profit and loss account are a net profit of £192m (June 2015: £163m, December 2015: £293m) in the technical account and a net profit of £20m (June 2015: net loss of £90m, December 2015: net loss of £207m) in the non-technical account.

Notes to the Interim Pro Forma Financial Statements continued

At 30 June 2016

8. Aggregation of results and net assets

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

Profit and loss account	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Full year 2015 £m
Result per syndicate returns	1,026	1,045	1,950
Result of the Society	196	83	74
Taxation charge in Society financial statements	48	21	13
Notional investment return on members' funds at Lloyd's	223	76	86
Society income not accrued in syndicate returns	(32)	(31)	(1)
Result for the financial period before tax	1,461	1,194	2,122

Other comprehensive income	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Full year 2015 £m
Result for the financial period	1,461	1,194	2,122
Other comprehensive income per syndicate returns	312	(57)	67
Other comprehensive income per Society financial statements	(96)	(7)	(5)
Total comprehensive income	1,677	1,130	2,184

Capital and reserves	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Full year 2015 £m
Net assets per syndicate returns	3,754	4,011	4,613
Net assets of the Society	1,863	1,769	1,763
Central Fund claims and provisions in Society Group financial statements	6	6	6
Members' funds at Lloyd's	20,108	16,208	17,840
Unpaid cash calls and undistributed profits re-analysed to members' balances	54	12	12
Society income receivable not accrued in syndicate returns	(50)	(48)	(18)
Capital and reserves per PFFS	25,735	21,958	24,216

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

Notes to the Interim Pro Forma Financial Statements continued

At 30 June 2016

9. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required totalling £9,437m (June 2015: £8,053m, December 2015: £8,758m).

10. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Full year 2015 £m
Cash at bank and in hand	11,902	10,369	11,026
Short term deposits with credit institutions	2,023	1,484	1,663
Overdrafts	(150)	(123)	(123)
	13,775	11,730	12,566

Of the cash and cash equivalents, £474m (June 2015: £508m, Dec 2015 £310m) is held in regulated bank accounts in overseas jurisdictions and is not available for immediate use other than to pay claims in those jurisdictions.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2016 Lloyd's Interim Pro Forma Financial Statements

Our conclusion

We have reviewed the preparation of the Lloyd's interim pro forma financial statements defined below, for the six months ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim pro forma financial statements are not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 by the Council of Lloyd's.

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

What we have reviewed

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

- the pro forma balance sheet as at 30 June 2016;
- the pro forma profit and loss account for the period then ended;
- the pro forma statement of comprehensive income for the period then ended;
- the pro forma statement of cash flows for the period then ended; and
- the related notes 1 to 10 which have been prepared on the basis set out in note 2.

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

The interim pro forma financial statements have been compiled in part from an aggregation of financial information extracted from the profit and loss accounts, balance sheets, cash flow statements and related notes included in syndicates' Quarterly Monitoring Return A – Quarter 2 2016 (the interim return), prepared by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have given a limited assurance conclusion, in accordance with International Standard on Review Engagements, ISRE 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our work did not involve assessing the quality of those reviews nor performing any audit or review procedures over the financial information of the syndicates.

We conducted our review in accordance with International Standard on Assurance Engagements, ISAE 3000 (Revised), 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries to obtain an understanding of how the Council of Lloyd's has compiled the interim pro forma financial statements from the syndicate interim returns and the Society of Lloyd's condensed interim financial statements, how the Funds at Lloyd's have been valued, and the nature of adjustments made to this information in the preparation of the interim pro forma financial statements, in order to assess whether any material modifications are required to the interim pro forma financial statements in order to prepare them in accordance with the basis of preparation set out in note 2. The engagement also involves evaluating the overall presentation of the interim pro forma financial statements.

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

Responsibilities for the interim pro forma financial statements and the review

Our responsibilities and those of the Council of Lloyd's

The Council of Lloyd's is responsible for preparing the interim pro forma financial statements in accordance with the basis of preparation set out in note 2. The purpose of the interim pro forma financial statements is to allow the financial results of Lloyd's and its members and their net assets taken together to be compared as closely as possible with the interim financial reports of general insurance companies.

Our responsibility is to undertake procedures to express a conclusion on whether the Council of Lloyd's has not prepared the interim pro forma financial statements, in all material respects, in accordance with the basis of preparation set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with our engagement letter dated 20 September 2016 ("the instructions"). Our review has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
21 September 2016

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Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society of Lloyd's achieved an operating surplus for the period of £112m (June 2015: £102m). The operating surplus by business segment is set out below:

	Corporation of Lloyd's £m	Lloyd's Central Fund £m	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Total income	151	104	255	221
Other Group operating expenses	(137)	(6)	(143)	(119)
Operating surplus	14	98	112	102

Corporation of Lloyd's

Total income for the Corporation increased to £151m during the first half of 2016 (30 June 2015: £115m). Within this, subscription income increased reflecting the higher level of premiums written as a result of favourable exchange rate movements. In addition, the subscription rate changed on 1 January 2016 from 0.5% of gross premiums after acquisition costs ("stamp premiums") to 0.45% of gross written premiums (further details are given in note 3), increasing the amount of subscription income generated.

In aggregate, other income streams also increased compared to the prior period, reflecting the overseas levy to cover expansion of our global network and the introduction of the market modernisation levy with effect from 1 January 2016. The levy has been introduced to generate additional funding from Lloyd's syndicates to meet the costs of market modernisation, namely the Target Operating Model (TOM) and the Placing Platform Limited (PPL). Within income, premiums written through Lloyd's Insurance Company (China) Limited increased to £119m (30 June 2015: £50m) reflecting strong growth in all classes of business. All business underwritten through the company is reinsured to Lloyd's syndicates.

Operating expenses increased to £137m (30 June 2015: £114m), reflecting the impact of exchange rates on the operating costs of our overseas network of offices when translated to sterling and continuing investment in the strategic priorities, notably global market access and market modernisation.

Lloyd's Central Fund

Total income for the Central Fund reduced slightly to £104m (30 June 2015: £106m). Contribution income reduced as a result of the change in contribution rate from 0.5% of stamp premiums to 0.35% of gross written premiums (further details are given in note 3). This was partly offset by an increase in income generated from the higher level of written premiums, reflecting the benefit of movements in rates of exchange.

Operating expenses for the Central Fund were in line with last year at £6m. There was no charge in the current or prior period in respect of claims arising within the fund and no payments were made in respect of insolvent corporate members (30 June 2015: £nil).

Society of Lloyd's Group Interim Review continued

Investment performance

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Finance costs	(27)	(27)
Finance income	154	26
Total net investment gain/(loss)	127	(1)

The Society's gross finance income was £154m, or 5.2% during the period (June 2015: £26m, 0.9%), including the impact of foreign exchange movements. The Society's gross finance income return of 5.2% has been calculated by taking gross finance income for the period, divided by the quarterly weighted average of all applicable assets for the period. These assets include financial investments, cash and cash equivalents and loans recoverable. Currency exposures are maintained within the Central Fund to match central solvency capital requirements, and these holdings generated gains of £72m during the period. The Central Fund also holds the majority of the Society's assets, which are invested across a diversified range of equity and other growth assets, along with a larger share of more conservative cash and fixed interest assets. This approach is designed to maximise return and diversify risk over the long term. This pool of assets generated finance income of £76m during the first six months of the year.

The first half of 2016 was a volatile period for financial markets. Investments were impacted by fears of global recession causing a sharp fall in risk asset valuations. In addition, UK and Eurozone markets in particular were adversely affected by the unexpected EU referendum result. Currency markets exhibited a pronounced reaction marked by the Sterling depreciation versus the US dollar. Investment returns were otherwise mixed with emerging market and commodity based investments producing very strong returns during the period, although developed equity markets were generally flat. Bond investments performed well, benefiting from capital appreciation as risk free yields fell over the period.

The disposition of the Society's financial investments is set out in note 9 on pages 39 to 40.

Finance costs, which primarily consist of interest arising on subordinated notes and capital securities, were stable at £27m (June 2015: £27m).

Taking the above factors into account, net investment gains during the period were £127m (June 2015: loss of £1m).

Results summary

Overall, the surplus after tax for the six months to June 2016 was £196m (June 2015: a surplus of £83m). There is a net other comprehensive deficit in the period of £96m (June 2015: £7m) reflecting the increased deficit on the pension scheme. The net assets of the Society increased by £100m in the six months to June 2016 to £1,863m.

Going Concern Statement

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

The Chain of Security is discussed in more detail in 'How Lloyd's works' on page 199 of the Society of Lloyd's 2015 Annual Report and in the 'Security underlying policies issued at Lloyd's' which is reported as a separate document and can be viewed at www.lloyds.com/lloyds/about-us/what-do-we-insure/stability-and-security.

Council of Lloyd’s Statement of Principal Risks and Uncertainties

The prevailing macro-economic and industry conditions continue to give rise to a number of current and future risks.

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

- Access to the European market following Brexit;
- Catastrophe exposure;
- Deteriorating supervisory environment;
- Failure to deliver Lloyd’s long term strategic objectives and the operational risks associated to the successful implementation of process and technology change;
- Ongoing compliance with Solvency II; and
- Underwriting market conditions, including new product oversight.

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

Council of Lloyd's Statement of Responsibilities

We confirm that to the best of our knowledge:

- The condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2016.
- The statement from the Chairman and Chief Executive and the Society of Lloyd's Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements.
- The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year.
- The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

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

On behalf of the Council of Lloyd's:

John Nelson	Inga Beale
Chairman	Chief Executive Officer

21 September 2016

Group Income Statement

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Operating income		151,432	114,935	238,765
Central Fund contributions	3(I)	100,338	104,179	106,922
Gross written premiums		118,657	49,538	104,413
Outward reinsurance premiums		(118,657)	(49,533)	(104,409)
Other Group income		3,506	2,354	4,810
Total income		255,276	221,473	350,501
Central Fund claims and provisions incurred	3(II)	–	(14)	(14)
Gross insurance claims		(77,233)	(13,191)	(68,639)
Insurance claims recoverable from reinsurers		77,233	13,191	68,639
Other Group operating expenses		(142,784)	(119,770)	(259,057)
Operating surplus		112,492	101,689	91,430
Finance costs	4A	(26,569)	(26,764)	(54,362)
Finance income	4B	154,475	26,318	42,728
Share of profits of associates		3,947	3,135	7,391
Surplus before tax		244,345	104,378	87,187
Tax charge	5	(48,109)	(21,447)	(12,835)
Surplus for the period/year		196,236	82,931	74,352

Group Statement of Comprehensive Income

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Surplus for the period/year		196,236	82,931	74,352
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement (losses)/gains on pension assets/liabilities				
UK	6	(129,147)	(7,474)	(2,025)
Overseas		–	–	(42)
Associates		–	(595)	467
Tax credit/(charge) relating to items that will not be reclassified	5	23,846	1,618	(3,332)
Currency translation differences		9,139	(544)	(739)
Items that may be reclassified subsequently to profit or loss				
Unrealised gains on revaluation of Lloyd's Collection		–	–	808
Net other comprehensive deficit for the period/year		(96,162)	(6,995)	(4,863)
Total comprehensive income for the period/year		100,074	75,936	69,489

Group Statement of Financial Position

As at 30 June 2016

	Note	30 June 2016 £000	30 June 2015 £000	31 December 2015 (audited) £000
Assets				
Intangible assets	7	79	10	81
Lloyd's Collection		13,314	12,506	13,314
Plant and equipment	8	17,203	15,896	18,244
Deferred tax asset		46,904	22,423	24,388
Investment in associates		7,984	3,444	8,502
Insurance contract assets		198,300	55,601	109,548
Loans recoverable	11	46,812	45,027	44,577
Financial investments	9	3,391,961	3,041,942	3,103,560
Inventories		368	306	332
Trade and other receivables due within one year		155,032	79,196	80,990
Prepayments and accrued income		25,121	25,235	15,618
Derivative financial instruments		26,806	10,510	8,789
Cash and cash equivalents		289,410	291,715	175,414
Total assets		4,219,294	3,603,811	3,603,357
Equity and liabilities				
Equity				
Accumulated reserve		1,830,091	1,746,216	1,739,156
Revaluation reserve		13,314	12,506	13,314
Translation Reserve		19,475	10,531	10,336
Total equity		1,862,880	1,769,253	1,762,806
Liabilities				
Subordinated notes and perpetual subordinated capital securities	10	882,448	885,749	882,090
Insurance contract liabilities		198,328	55,629	109,575
Pension liabilities	6	228,790	97,121	95,534
Provisions		33,270	36,615	29,585
Loans funding statutory insurance deposits		479,837	430,018	436,518
Trade and other payables		295,566	196,592	210,171
Accruals and deferred income		125,922	100,737	51,263
Tax payable		44,582	20,808	8,977
Derivative financial instruments		67,671	11,289	16,838
Total liabilities		2,356,414	1,834,558	1,840,551
Total equity and liabilities		4,219,294	3,603,811	3,603,357

Approved and authorised for issue by the Council of Lloyd's on 21 September 2016 and signed on its behalf by:

John Nelson
Chairman

Inga Beale
Chief Executive Officer

Group Statement of Changes in Equity

For the six months ended 30 June 2016

	Accumulated reserve £000	Revaluation reserve £000	Translation reserve £000	Total equity £000
At 1 January 2015	1,669,736	12,506	11,075	1,693,317
Surplus for the period	82,931	–	–	82,931
Net other comprehensive deficit for the period	(6,451)	–	(544)	(6,995)
At 30 June 2015	1,746,216	12,506	10,531	1,769,253
Deficit for the period	(8,579)	–	–	(8,579)
Net other comprehensive income/(deficit) for the period	1,519	808	(195)	2,132
At 31 December 2015	1,739,156	13,314	10,336	1,762,806
Surplus for the period	196,236	–	–	196,236
Net other comprehensive (deficit)/income for the period	(105,301)	–	9,139	(96,162)
At 30 June 2016	1,830,091	13,314	19,475	1,862,880

Group Statement of Cash Flows

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Cash generated from operations	12	215,813	167,028	131,346
Tax paid		(11,128)	(11,075)	(20,948)
Net cash generated from operating activities		204,685	155,953	110,398
Cash flows from investing activities				
Purchase of plant, equipment and intangible assets	7/8	(3,542)	(9,815)	(16,174)
Proceeds from the sale of plant, equipment and intangible assets		10	1	3
Purchase of financial investments	9A/B	(1,460,625)	(1,397,038)	(2,654,226)
Receipts from the sale of financial investments	9A/B	1,418,913	1,348,833	2,643,058
Increase in short term deposits	9B	(12,523)	(37,165)	(116,474)
Reclassification from short term deposits	9B	(1,454)	–	–
Dividends received from associates		4,419	7,182	7,181
Interest received		24,914	20,512	43,762
Dividends received	4	4,244	4,003	6,932
Realised (losses)/gains on settlement of forward currency contracts		(25,863)	22,401	7,403
Net cash used in investing activities		(51,507)	(41,086)	(78,535)
Cash flows from financing activities				
Redemption of subordinated notes		–	–	(4,545)
Interest paid on subordinated notes		(29,091)	(29,091)	(53,154)
Issue costs in relation to subordinated notes		(1)	(121)	(140)
Other interest paid		(731)	(12,449)	(14,202)
Decrease in borrowings for statutory insurance deposits		(10,266)	(42,819)	(45,250)
Net cash used in financing activities		(40,089)	(84,480)	(117,291)
Net increase/(decrease) in cash and cash equivalents		113,089	30,387	(85,428)
Effect of exchange rates on cash and cash equivalents		907	(259)	(745)
Cash and cash equivalents at 1 January		175,414	261,587	261,587
Cash and cash equivalents at 30 June/31 December		289,410	291,715	175,414

Notes to the Group Interim Financial Statements

As at 30 June 2016

1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council of Lloyd's on 21 September 2016. The Group interim financial statements comprise the consolidation of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund and the Group's interest in associates as at each statement of financial position date. The Group interim financial statements for the six months ended 30 June 2016 and 30 June 2015 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2016, is set out on page 49.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2015 prepared under IFRS as adopted by the EU. Their report was included in the Annual Report 2015 which was published on 23 March 2016 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

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

The accounting policies, except for the adoption of the amendments to the International Accounting Standards (IASs) that became effective as of 1 January 2016 as stated below, are consistent with those adopted for the Society of Lloyd's Annual Report 2015, which was approved on 22 March 2016. 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 adopted the following new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2016:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures: Investment Entities – Applying the Consolidation Exception;
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative;
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation; and
- Annual improvements 2012 – 2014 cycle.

The Society's accounting policies have been updated to reflect these. The Council considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group interim financial statements.

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.

Notes to the Group Interim Financial Statements continued

3. Segmental analysis continued

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

The Society's primary business segments are as follows:

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

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

		Six months ended 30 June 2016		
A) Information by business segment	Note	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		151,557	103,719	255,276
Segment operating expenses				
Gross insurance claims		(77,233)	–	(77,233)
Insurance claims recoverable from reinsurers		77,233	–	77,233
Other Group operating expenses				
Employment (including pension costs)		(69,624)	–	(69,624)
Premises		(23,170)	–	(23,170)
Legal and professional		(16,241)	(358)	(16,599)
Systems and communications		(11,084)	–	(11,084)
Other		(17,347)	(4,960)	(22,307)
Total other Group operating expenses		(137,466)	(5,318)	(142,784)
Total segment operating expenses		(137,466)	(5,318)	(142,784)
Total segment operating surplus		14,091	98,401	112,492
Finance costs	4A	1	(26,570)	(26,569)
Finance income	4B	1,972	152,503	154,475
Share of profits of associates		3,947	–	3,947
Segment surplus before tax		20,011	224,334	244,345
Tax charge				(48,109)
Surplus for the period				196,236
Segment assets and liabilities				
Investment in associates		7,984	–	7,984
Other assets		1,391,375	2,773,031	4,164,406
Segment assets		1,399,359	2,773,031	4,172,390
Tax assets				46,904
Total assets				4,219,294
Segment liabilities		(1,329,734)	(982,098)	(2,311,832)
Tax liabilities				(44,582)
Total liabilities				(2,356,414)
Total equity				1,862,880

Notes to the Group Interim Financial Statements continued

3. Segmental analysis continued

A) Information by business segment continued	Note	Six months ended 30 June 2015 Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		115,079	106,394	221,473
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(14)	(14)
Gross claims incurred		(13,191)	–	(13,191)
Insurance claims recoverable from reinsurers		13,191	–	13,191
Other Group operating expenses				
Employment (including pension costs)		(59,402)	–	(59,402)
Premises		(18,529)	–	(18,529)
Legal and professional		(10,932)	(231)	(11,163)
Systems and communications		(12,238)	–	(12,238)
Other		(13,502)	(4,936)	(18,438)
Total other Group operating expenses		(114,603)	(5,167)	(119,770)
Total segment operating expenses		(114,603)	(5,181)	(119,784)
Total segment operating surplus		476	101,213	101,689
Finance costs	4A	(19)	(26,745)	(26,764)
Finance income	4B	2,303	24,015	26,318
Share of profits of associates		3,135	–	3,135
Segment surplus before tax		5,895	98,483	104,378
Tax charge				(21,447)
Surplus for the period				82,931
Segment assets and liabilities				
Investment in associates		3,444	–	3,444
Other assets		952,981	2,624,963	3,577,944
Segment assets		956,425	2,624,963	3,581,388
Tax assets				22,423
Total assets				3,603,811
Segment liabilities		(864,577)	(949,173)	(1,813,750)
Tax liabilities				(20,808)
Total liabilities				(1,834,558)
Total equity				1,769,253

Notes to the Group Interim Financial Statements continued

3. Segmental analysis continued

		Full year 2015 (audited)		
A) Information by business segment continued	Note	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
Segment income				
Total income		238,994	111,507	350,501
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(14)	(14)
Gross insurance claims		(68,639)	–	(68,639)
Insurance claims recoverable from reinsurers		68,639	–	68,639
Other Group operating expenses				
Employment (including pension costs)		(125,381)	–	(125,381)
Premises		(40,305)	–	(40,305)
Legal and professional		(26,068)	(1,120)	(27,188)
Systems and communications		(26,012)	–	(26,012)
Other		(29,458)	(10,713)	(40,171)
Total other Group operating expenses		(247,224)	(11,833)	(259,057)
Total segment operating expenses		(247,224)	(11,847)	(259,071)
Total segment operating (deficit)/surplus		(8,230)	99,660	91,430
Finance costs	4A	(36)	(54,326)	(54,362)
Finance income	4B	4,258	38,470	42,728
Share of profits of associates		7,391	–	7,391
Segment surplus before tax		3,383	83,804	87,187
Tax charge				(12,835)
Surplus for the year				74,352
Segment assets and liabilities				
Investment in associates		8,502	–	8,502
Other assets		1,038,267	2,532,200	3,570,467
Segment assets		1,046,769	2,532,200	3,578,969
Tax assets				24,388
Total assets				3,603,357
Segment liabilities		(876,203)	(955,371)	(1,831,574)
Tax liabilities				(8,977)
Total liabilities				(1,840,551)
Total equity				1,762,806

Notes to the Group Interim Financial Statements continued

3. Segmental analysis continued

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

B) Net central assets	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Central Fund			
Net assets 1 January	1,657,958	1,589,843	1,589,843
Operating surplus	99,242	102,054	101,345
Intra-Group transactions	(841)	(841)	(1,685)
Net finance income/(cost)	125,934	(2,730)	(15,856)
Tax charge	(44,539)	(19,816)	(15,689)
Net assets as at 30 June/31 December	1,837,754	1,668,510	1,657,958
Corporation of Lloyd's and subsidiary undertakings	25,126	100,743	104,848
Net Society assets at 30 June/31 December	1,862,880	1,769,253	1,762,806
Subordinated notes	493,958	497,259	493,600
Perpetual subordinated capital securities	388,490	388,490	388,490
Net central assets excluding subordinated debt liabilities	2,745,328	2,655,002	2,644,896

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

Following a review of current market practices, from 1 January 2016, Corporation subscriptions ("subscriptions") and Central Fund contributions ("contributions") are calculated by applying a percentage to gross premiums before deduction of acquisition costs ("Gross Written Premiums" or "GWP"). Subscriptions and contributions had previously been calculated by applying a percentage to gross premiums after deduction of acquisition costs ("stamp premiums"); this change brings the basis of the calculation into line with wider market practice. The percentage rates applied to GWP were adjusted to reflect the change in basis so that there would be minimal overall effect from the change on the amounts collected.

At the same time as changing the basis of calculation, the weighting of revenue between subscriptions and contributions was updated. To reflect the increased investment being undertaken in the Corporation and recent performance within the Central Fund, the subscription rate for 2016 stands at 0.45% of GWP (30 June 2015: 0.5% of stamp premiums; 31 December 2015: 0.5% of stamp premiums) and the contributions rate is 0.35% of GWP (30 June 2015: 0.5% of stamp premiums; 31 December 2015: 0.5% of stamp premiums).

In order to fund the operation of the Society's overseas network of offices, an overseas operating charge is levied on the market. With effect from 1 January 2016, this has changed from a dollar for dollar cost recovery to a set percentage of gross premiums written overseas. In line with the previous basis, different percentages will be set based on direct, binder and reinsurance business to minimise differences arising on the change in the basis. The collection method will be maintained as per previous years, being quarterly with an adjustment after 12 months to the actual level of premiums written.

In addition to the above, an additional levy was charged with effect from 1 January 2016. This levy is calculated as 0.1% of the GWP for the 2016 year of account and has been raised in order to fund the costs of market modernisation, principally the Target Operating Model (TOM) and the Placing Platform Limited (PPL).

Notes to the Group Interim Financial Statements continued

3. Segmental analysis continued

(II) Central Fund claims and provisions

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Net undertakings granted	–	–	–
Claims payable in respect of individual members	–	(14)	(14)
Central Fund claims and provisions incurred	–	(14)	(14)

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

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

During the six months to 30 June 2016, no undertakings were paid to corporate members (30 June 2015: nil; 31 December 2015: nil).

4. Finance

(A) Finance costs	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Interest payable on financial liabilities measured at amortised cost	(26,211)	(26,358)	(53,034)
Other interest payable and similar charges	1	(19)	(36)
Amortisation of issue costs and discount	(359)	(387)	(1,292)
Total interest payable on financial liabilities	(26,569)	(26,764)	(54,362)
(B) Finance income			
Bank interest received	4,052	4,032	7,914
Dividends received	4,244	4,003	6,932
Gain on investments including unrealised movement of forward currency contracts	142,489	17,475	26,799
Movement in loans recoverable	3,690	808	1,083
Total finance income	154,475	26,318	42,728

Notes to the Group Interim Financial Statements continued

5. Taxation

A) Analysis of total tax charge	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Current tax			
Corporation tax based on profits for the period at 20% (2015: 20.25%)	(46,089)	(23,520)	(20,751)
Adjustments in respect of previous periods	1	369	773
Foreign tax suffered	(588)	(50)	(1,254)
Total current tax	(46,676)	(23,201)	(21,232)
Deferred tax			
Origination and reversal of timing differences			
Current year	(1,433)	1,612	8,026
Prior year	–	142	371
Tax charge recognised in the Group income statement	(48,109)	(21,447)	(12,835)
Analysis of tax credit/(charge) recognised in the Group statement of comprehensive income			
Deferred tax			
Tax charge on revaluations of overseas deferred tax	–	(5)	–
Tax credit/(charge) on actuarial loss on pension liabilities			
Group	23,892	1,495	(3,199)
Associates	(46)	128	(133)
Tax credit/(charge) recognised in the Group statement of comprehensive income	23,846	1,618	(3,332)
Total tax charge	(24,263)	(19,829)	(16,167)

B) Reconciliation of effective tax rate	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Surplus on ordinary activities before tax	244,345	104,378	87,187
Corporation tax at 20% (2015: 20.25%)	(48,869)	(21,137)	(17,655)
Expenses not deductible for tax purposes	(386)	(561)	(1,054)
Overseas tax	(554)	(168)	(254)
Other	551	153	637
Share of profits of associates	789	635	1,497
Deferred tax adjustment relating to the Lloyd's Collection	–	(860)	–
Deferred tax on restated fixed assets	32	–	1,048
Deferred tax adjustments relating to change in tax rate	327	(22)	1,798
Deferred tax prior year adjustments	–	144	375
Adjustments in respect of previous years	1	369	773
Tax charge	(48,109)	(21,447)	(12,835)

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

The deferred tax asset is based on corporation tax rates of 20% – 18% depending on when an asset is expected to unwind (2015: 20%). Reductions to the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were announced in the Budget on 8 July 2015 and substantively enacted in October 2015.

Notes to the Group Interim Financial Statements continued

6. Pension schemes

The Lloyd's Pension Scheme

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19R 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2016 was £226m (30 June 2015: deficit of £95m; 31 December 2015: deficit of £93m) before the allowance of deferred tax. An actuarial loss of £129m has been recognised in the six months ended 30 June 2016 (30 June 2015: £7m; 31 December 2015: £2m).

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

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Actuarial value of Scheme liabilities at 1 January	767,759	763,316	763,316
Interest cost on Pension Scheme liabilities	14,372	13,911	27,814
Current service cost (net of employee contributions)	4,179	4,590	9,398
Employee contributions	952	1,016	2,073
Benefits paid	(11,353)	(11,743)	(23,832)
Experience gains arising in Scheme liabilities	(137)	(1,702)	(3,112)
Change in assumptions underlying the present value of the Scheme liabilities			
Demographic assumption change	–	–	–
Financial assumption change	140,028	15,118	(7,898)
Actuarial value of Scheme liabilities at 30 June/31 December	915,800	784,506	767,759

Changes in fair value of plan assets were:

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Fair value of Scheme assets at 1 January	674,709	679,593	679,593
Expected return on Pension Scheme assets	12,604	12,425	24,848
Employer contributions			
Normal	2,299	2,411	5,062
Special	–	–	–
Employee contributions	952	1,016	2,073
Benefits paid	(11,353)	(11,381)	(23,170)
Actuarial gains/(losses) on Scheme assets	10,744	5,942	(13,035)
Administrative expenses	–	(362)	(662)
Fair value of Scheme assets at 30 June/31 December	689,955	689,644	674,709

The latest triennial funding valuation of the scheme is currently being undertaken, based on the position as at 30 June 2016, with the results being available later this year. As with previous funding valuations, management will consider the outcome of the review and will take appropriate action depending upon the funding position.

Notes to the Group Interim Financial Statements continued

6. Pension schemes continued

Sensitivity of pension obligation to changes in assumptions

A change of 1% pa in the discount rate to be adopted as at 30 June 2016 would result in a change to the balance sheet liabilities at that date of around 20%, or approximately £180m.

A change of 1% pa in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2016, which would change future expectations of salary increases, pension increases and deferred revaluation, would result in a change to the Defined Benefit Obligation at that date of around 10%, or approximately £90m.

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 2016 would be around 2% higher.

Overseas pension schemes

The Corporation of Lloyd's also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2016 is £3m (30 June 2015: £2m; 31 December 2015: £2m).

7. Intangible assets – software development

	£000
Cost	
At 1 January 2015	4,734
Additions	118
Disposals	(144)
At 30 June 2015	4,708
Additions	154
Disposals	(51)
At 31 December 2015	4,811
Additions	190
Disposals	(63)
At 30 June 2016	4,938
Amortisation	
At 1 January 2015	4,716
Charge for the period	93
Disposals	(111)
At 30 June 2015	4,698
Charge for the period	82
Disposals	(50)
At 31 December 2015	4,730
Charge for the period	189
Disposals	(60)
At 30 June 2016	4,859
Net book value at 30 June 2016	79
Net book value at 31 December 2015	81
Net book value at 30 June 2015	10

Notes to the Group Interim Financial Statements continued

8. Property, plant and equipment

	Furniture and fittings £000	Computer and specialised equipment £000	Other £000	Total £000
Cost				
At 1 January 2015	20,402	18,587	93	39,082
Additions	8,904	786	6	9,696
Disposals	(882)	(61)	(33)	(976)
At 30 June 2015	28,424	19,312	66	47,802
Additions	2,750	3,455	1	6,206
Disposals	(1,624)	(664)	(2)	(2,290)
At 31 December 2015	29,550	22,103	65	51,718
Additions	2,327	1,018	7	3,352
Disposals	(1,797)	(114)	(2)	(1,913)
At 30 June 2016	30,080	23,007	70	53,157
Depreciation				
At 1 January 2015	13,624	13,665	56	27,345
Depreciation charge for the period	3,892	1,155	10	5,057
Disposals	(427)	(45)	(24)	(496)
At 30 June 2015	17,089	14,775	42	31,906
Depreciation charge for the period	1,419	1,156	8	2,583
Disposals	(473)	(540)	(2)	(1,015)
At 31 December 2015	18,035	15,391	48	33,474
Depreciation charge for the period	2,332	1,297	13	3,642
Disposals	(1,092)	(68)	(2)	(1,162)
At 30 June 2016	19,275	16,620	59	35,954
Net book value at 30 June 2016	10,805	6,387	11	17,203
Net book value at 31 December 2015	11,515	6,712	17	18,244
Net book value at 30 June 2015	11,335	4,537	24	15,896

Notes to the Group Interim Financial Statements continued

9. Financial investments

	30 June 2016 £000	30 June 2015 £000	31 December 2015 (audited) £000
Statutory insurance deposits	484,204	440,870	445,901
Other investments	2,907,757	2,601,072	2,657,659
Total financial investments	3,391,961	3,041,942	3,103,560

A) Statutory insurance deposits

	30 June 2016			30 June 2015	31 December 2015 (audited)
	Securities £000	Deposits £000	Total £000	£000	£000
Market value at 1 January	11,517	434,384	445,901	477,494	477,494
Additions at cost	12,733	382,740	395,473	688,603	872,695
Disposal proceeds	(12,793)	(398,604)	(411,397)	(735,669)	(923,119)
Surplus on the sale and revaluation of investments	879	53,348	54,227	10,442	18,831
Market value at 30 June/31 December	12,336	471,868	484,204	440,870	445,901

	30 June 2016		30 June 2015		31 December 2015 (audited)	
	Cost £000	Valuation £000	Cost £000	Valuation £000	Cost £000	Valuation £000
Analysis of government securities at period/year end	11,192	12,336	90,744	88,662	11,202	11,517

Notes to the Group Interim Financial Statements continued

9. Financial investments continued

B) Other investments

	30 June 2016			30 June 2015	31 December 2015 (audited)
	Corporation of Lloyd's £000	Lloyd's Central Fund £000	Total £000	Total £000	Total £000
Market value at 1 January	235,915	2,421,744	2,657,659	2,494,897	2,494,897
Additions at cost	–	1,065,152	1,065,152	708,435	1,781,531
Reclassification from short term deposits	1,454	–	1,454	–	–
Increase/(decrease) in short term deposits	28,369	(15,846)	12,523	37,165	116,474
Disposal proceeds	–	(1,007,516)	(1,007,516)	(613,164)	(1,719,939)
Surplus/(deficit) on the sale and revaluation of investments	–	178,485	178,485	(26,261)	(15,304)
Market value at 30 June/31 December	265,738	2,642,019	2,907,757	2,601,072	2,657,659
Analysis of securities at period/year end					
Listed securities					
Fixed interest					
Government	1,454	615,985	617,439	900,070	829,860
Corporate securities	–	1,002,254	1,002,254	654,440	704,864
Emerging markets	–	82,136	82,136	65,901	62,198
High yield	–	53,454	53,454	49,656	49,179
Total fixed interest	1,454	1,753,829	1,755,283	1,670,067	1,646,101
Global equities	–	556,594	556,594	501,657	495,577
Total listed securities	1,454	2,310,423	2,311,877	2,171,724	2,141,678
Unlisted securities					
Hedge funds	–	147,997	147,997	136,402	141,086
Commodities	–	44,664	44,664	–	–
Loan Investments	–	94,565	94,565	76,124	78,764
Short term deposits	264,284	24,370	288,654	196,822	276,131
Security deposits	–	20,000	20,000	20,000	20,000
Total unlisted securities	264,284	331,596	595,880	429,348	515,981
Market value at 30 June/31 December	265,738	2,642,019	2,907,757	2,601,072	2,657,659

Notes to the Group Interim Financial Statements continued

10. Subordinated notes and perpetual subordinated capital securities

	30 June 2016 £000	30 June 2015 £000	31 December 2015 (audited) £000
Details of loans payable wholly or partly after more than five years			
6.875% subordinated notes redeemed on 17 November 2015 (Sterling 2004 Notes)	–	4,545	–
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	500,000	500,000	500,000
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	392,013	392,013	392,013
	892,013	896,558	892,013
Less issue costs to be charged in future years	(6,343)	(7,087)	(6,510)
Less discount on issue to be unwound in future years	(3,222)	(3,722)	(3,413)
Total subordinated notes and perpetual subordinated capital securities	882,448	885,749	882,090

Subordinated notes

The Sterling 2004 Notes were due to mature on 17 November 2025, although the Society took the option to redeem them on 17 November 2015.

The Sterling 2014 Notes issued on 30 October 2014 mature on 30 October 2024 and bear interest at a rate of 4.75% per annum, payable annually in arrears on 30 October in each year.

The perpetual subordinated capital securities are perpetual securities and have no redemption date, however, they are redeemable in whole on 21 June 2017 at the option of the Society or on any interest payment date thereafter provided certain conditions have been met by the Society.

Fair values

The fair value (based on quoted offer prices) of subordinated debt is £941.2m (30 June 2015: £945.3m; 31 December 2015: £948.4m).

Notes to the Group Interim Financial Statements continued

11. Financial instruments

Fair value hierarchy

	Note	30 June 2016 Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial investments at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,639	–	3,639
Unlisted securities		–	8,697	–	8,697
Deposits with credit institutions		–	471,868	–	471,868
Total statutory insurance deposits	9A	–	484,204	–	484,204
Other investments					
Listed securities		751,574	1,002,254	–	1,753,828
Equity investments		556,595	–	–	556,595
Unlisted securities		–	287,226	–	287,226
Deposits with credit institutions		310,108	–	–	310,108
Total other investments	9B	1,618,277	1,289,480	–	2,907,757
Derivative financial instruments					
Currency conversion service		–	20,212	–	20,212
Other forward foreign exchange contracts		–	6,036	–	6,036
Interest rate swaps		–	558	–	558
Total derivative financial instruments		–	26,806	–	26,806
Loans recoverable		–	–	46,812	46,812
Total financial assets at fair value through profit or loss		1,618,277	1,800,490	46,812	3,465,579
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(20,166)	–	(20,166)
Other forward foreign exchange contracts		–	(36,521)	–	(36,521)
Interest rate swaps		–	(10,984)	–	(10,984)
Total derivative financial instruments		–	(67,671)	–	(67,671)
Total financial liabilities at fair value through profit or loss		–	(67,671)	–	(67,671)

Notes to the Group Interim Financial Statements continued

11. Financial instruments continued

Fair value hierarchy continued

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

Notes to the Group Interim Financial Statements continued

11. Financial instruments continued

Fair value hierarchy continued

	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
		31 December 2015 (audited)			
Financial investments at fair value through profit or loss					
Statutory insurance deposits					
Listed securities		–	3,355	–	3,355
Unlisted securities		–	8,162	–	8,162
Deposits with credit institutions		–	434,384	–	434,384
Total statutory insurance deposits	9A	–	445,901	–	445,901
Other investments					
Listed securities		941,237	704,864	–	1,646,101
Equity investments		495,578	–	–	495,578
Unlisted securities		–	219,849	–	219,849
Deposits with credit institutions		296,131	–	–	296,131
Total other investments	9B	1,732,946	924,713	–	2,657,659
Derivative financial instruments					
Currency conversion service		–	3,200	–	3,200
Other forward foreign exchange contracts		–	5,029	–	5,029
Interest rate swaps		–	560	–	560
Total derivative financial instruments		–	8,789	–	8,789
Loans recoverable		–	–	44,577	44,577
Total financial assets at fair value through profit or loss		1,732,946	1,379,403	44,577	3,156,926
Financial liabilities at fair value through profit or loss					
Derivative financial instruments					
Currency conversion service		–	(3,416)	–	(3,416)
Other forward foreign exchange contracts		–	(11,372)	–	(11,372)
Interest rate swaps		–	(2,050)	–	(2,050)
Total derivative financial instruments		–	(16,838)	–	(16,838)
Total financial liabilities at fair value through profit or loss		–	(16,838)	–	(16,838)

Level 1

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

Level 2

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

Level 3

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

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

Notes to the Group Interim Financial Statements continued

11. Financial instruments continued

Fair value hierarchy continued

The Society's loans recoverable are categorised within Level 3 fair values for disclosure purposes.

	30 June 2016 £000	30 June 2015 £000	31 December 2015 (audited) £000
Loans recoverable			
At 1 January	44,577	46,439	46,439
Recoveries during the period/year	(1,455)	(2,220)	(2,945)
Fair value movements recognised during the period/year	3,690	808	1,083
At 30 June/31 December	46,812	45,027	44,577

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

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

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2016.

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

Sensitivity analysis

Loans recoverable sensitivities

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

As at 30 June 2016, a decrease of 100 basis points in the property values, comprising the greatest part of the total balance, would have reduced the surplus before tax by approximately £0.2m (30 June 2015: £0.4m; 31 December 2015: £0.1m). This analysis assumes that all other variables, including inflationary increases and discount rates, remain the same.

Fair values

Details of the fair value of subordinated debt are set out in Note 10 on page 41. All other financial instruments are either held at fair value or at an amount that is a reasonable approximation of fair value.

The methods and assumptions used in estimating fair value of financial instruments are detailed in Note 2F on pages 150 to 151 in the 2015 Annual Report.

Notes to the Group Interim Financial Statements continued

12. Cash generated from operations

	Note	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Surplus before tax		244,345	104,378	87,187
Net finance (income)/costs	4	(127,906)	446	11,634
Share of profits of associates		(3,947)	(3,135)	(7,391)
Operating surplus		112,492	101,689	91,430
Central Fund claims and provisions incurred	3(II)	–	14	14
Operating surplus before Central Fund claims and provisions		112,492	101,703	91,444
Adjustments for				
Depreciation of plant and equipment	8	3,642	5,057	7,640
Amortisation of intangible assets	7	189	93	175
Losses on sale and revaluation of fixed assets		744	513	1,786
Gains/(losses) on investments		519	(272)	145
Unrealised gains/(losses) on translation of foreign operations		9,139	(544)	(739)
Foreign exchange (gains)/losses on operating activities		(907)	259	745
Operating surplus before working capital changes and claims paid		125,818	106,809	101,196
Changes in pension obligations		4,109	3,602	7,422
Increase in receivables		(187,484)	(25,967)	(68,433)
Increase in inventories		(36)	(26)	(52)
Increase in payables		269,721	80,039	95,672
Increase/(decrease) in provisions other than for Central Fund claims		3,685	2,585	(4,445)
Cash generated from operations before claims paid		215,813	167,042	131,360
Claims paid in respect of corporate/insolvent members		–	(14)	(14)
Cash generated from operations		215,813	167,028	131,346

13. Commitments

Capital expenditure commitments contracted but not provided for in the financial statements totalled £0.2m (30 June 2015: £0.5m; 31 December 2015: £0.9m). Commitments also arise under the fully repairing operating leases. These are included within provisions shown in the Group statement of financial position on page 26.

Notes to the Group Interim Financial Statements continued

14. Related party transactions

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

Services provided to Ins-sure Holdings Limited in the period ended 30 June 2016 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited in the period ended 30 June 2016 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2016 included the provision of messaging infrastructure.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial periods/year together with information regarding the outstanding balances at 30 June 2016, 30 June 2015 and 31 December 2015.

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Sales to related parties			
Associates			
Ins-sure Holdings Limited	128	140	287
Xchanging Claims Services Limited	31	45	88
Joint venture			
The Message Exchange Limited	–	–	–
Purchases from related parties			
Associates			
Ins-sure Holdings Limited	1,255	1,557	1,814
Xchanging Claims Services Limited	–	–	–
Joint venture			
The Message Exchange Limited	256	251	493
Amounts owed by related parties			
Associates			
Ins-sure Holdings Limited	69	9	28
Xchanging Claims Services Limited	2	5	6
Joint venture			
The Message Exchange Limited	3	–	–
Amounts owed to related parties			
Associates			
Ins-sure Holdings Limited	30	–	121
Xchanging Claims Services Limited	10	–	–
Joint venture			
The Message Exchange Limited	40	44	40

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

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

Notes to the Group Interim Financial Statements continued

15. Contingent liabilities

(a) General average guarantees have been given on behalf of, and secured by, Lloyd's underwriters. It is estimated that the aggregate of the liabilities attaching to these guarantees at 30 June 2016 amounted to £32.0m (30 June 2015: £26.1m; 31 December 2015: £29.2m).

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

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

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

(c) Uncollateralised bank guarantees and other arrangements have been entered into by the Society and its subsidiary undertakings to provide security in connection with the underwriting activities of the members of Lloyd's in the countries shown:

	Six months ended 30 June 2016 £000	Six months ended 30 June 2015 £000	Full year 2015 (audited) £000
Guarantees provided by the Society			
US: US$1,500,000 (2015: US$1,500,000)	1,117	954	1,018

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

In respect of all contingent liabilities disclosed as at 30 June 2016, no provision has been made in the Society financial statements.

16. Post balance sheet events

As at 31 August 2016, the deficit arising on the Lloyd's Pension Scheme had increased to an estimated £341m from the 30 June 2016 position largely due to a further reduction in the discount rate which is applied to the forecast future scheme liabilities. The discount rate is based upon corporate bond yields which have continued to fall from the date of statement of financial position. Management continually monitors the performance of the scheme and works closely with the pension scheme trustees to ensure that the scheme is structured and funded appropriately. The latest triennial valuation dated 30 June 2016 is underway and Lloyd's and the trustees will determine whether any additional funding is necessary to address the deficit as part of the normal valuation and funding process. Further details of the scheme are provided in note 6 on pages 36 to 37.

Independent Review Report to the Society of Lloyd's

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

Our conclusion

We have reviewed the Society of Lloyd's condensed set of Group interim financial statements (the "interim financial statements") for the six month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

What we have reviewed

The interim financial statements comprise:

- the Group statement of financial position as at 30 June 2016;
- the Group income statement and consolidated statement of comprehensive income for the period then ended;
- the Group statement of cash flows for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Council of Lloyd's

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

Our responsibility is to express a conclusion on the interim financial statements based on our review. This report, including the conclusion, has been prepared for and only for the Council of Lloyd's for the purpose of fulfilling its commitment to make the Society of Lloyd's more transparent and comparable to its peers and for no other purposes. 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 Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim 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
21 September 2016

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