

2014

LLOYD'S
INTERIM
REPORT

SIX MONTHS ENDED
30 JUNE 2014

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

Our licences in over 75 jurisdictions, supported by a network of local offices, ensure access to insurance markets large and small.

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OVERVIEW

2014 AT A GLANCE

Financial highlights

Lloyd's reported a profit before tax of £1,667m (June 2013: £1,379m) and a combined ratio of 88.2% (June 2013: 86.9%).

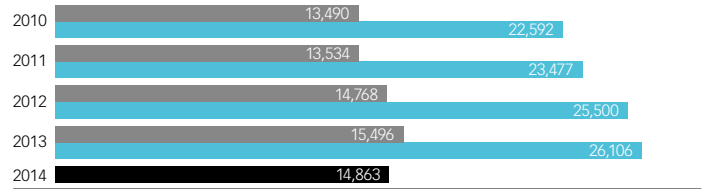
Capital, reserves and subordinated loan notes stand at £20,719m (June 2013: £20,873m).

Lloyd's financial strength rating was upgraded by Fitch Ratings to AA- (Very Strong), our A.M. Best rating remains A (Excellent) and our Standard & Poor's rating remains at A+ (Strong).

GROSS WRITTEN PREMIUM

£14,863M

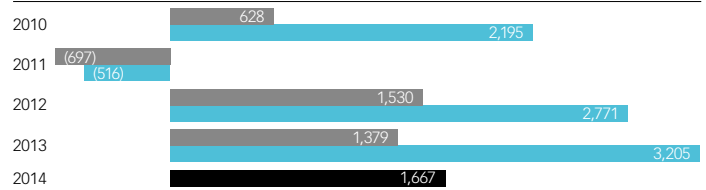
£m



RESULT BEFORE TAX

£1,667M

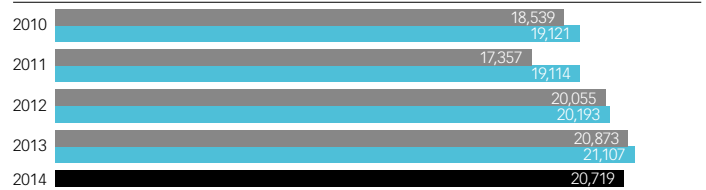
£m



CAPITAL, RESERVES AND SUBORDINATED DEBT AND SECURITIES

£20,719M

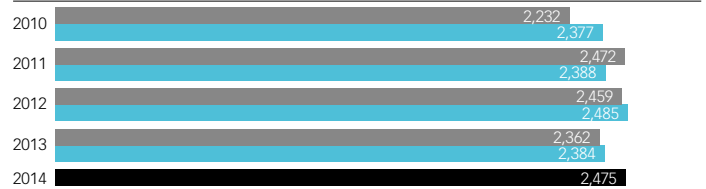
£m



CENTRAL ASSETS

£2,475M

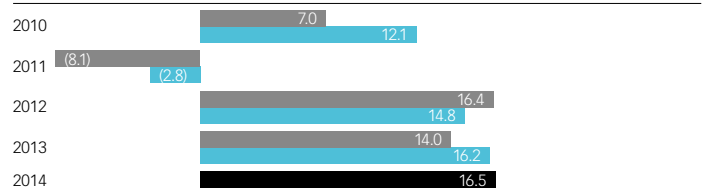
£m



RETURN ON CAPITAL (ANNUALISED)

16.5%

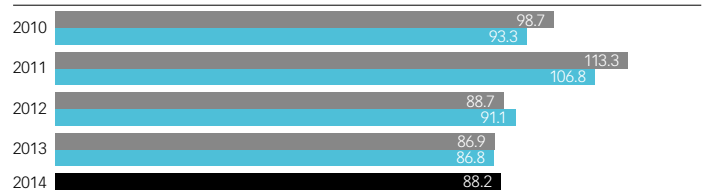
%



COMBINED RATIO

88.2%

%



■ Half year
■ Full year
■ Current half year

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE

The Lloyd's market recorded another excellent set of results for the first six months of 2014 – a profit of £1.67bn (2013: £1.38bn), with a combined ratio of 88.2% and a return on capital of 16.5%.

While these results show an improvement over the equivalent period in 2013, the market conditions are becoming increasingly challenging.

There has been a marked improvement in terms of investment income – up £0.39bn to £0.64bn compared with the first six months of 2013, returning to the levels seen in 2011 and 2012, although they continue to remain affected by the low interest rate environment. A weakening of the US dollar against sterling has had a slight negative impact on these results of 1% on net earned premium.

Our financial ratings comprise an A (Excellent) from A.M. Best and A+ (Strong) from Standard & Poor's. Fitch recently upgraded the market from an A+ to an AA- rating (Very Strong), citing both our market oversight and our substantial investment in risk and exposure management practices as part of Solvency II preparations.

In terms of claims, the first half of this year has been a relatively benign period for major catastrophes. The most notable claims have arisen from the unusually high incidence of aviation losses, which have been sudden and tragic. The global aviation hull war market accounts for around \$65m of premium per annum; yet already in 2014, claims could exceed \$600m for the insurance industry. In a period when premium rates have generally fallen, most notably in the reinsurance space, this is a reminder of why pricing must reflect the underlying risks which are being written.

Pricing continues to be under pressure from the additional capital which has entered the industry as a result of the long period of low interest rates – this has led to an increasingly competitive environment. The market has reacted well, demonstrating underwriting discipline with overall premium growth being restrained while we are experiencing these challenging conditions. One area where we have shown growth is in surplus lines in the United States – an area where premium rates have held up well in the SME sector in relation to other markets.

We also remain committed to building the foundations for future growth in economies which are currently underinsured. We are making good progress in implementing our long-term strategy, Vision 2025 – and recently we were awarded a licence to open a branch office in Beijing by the Chinese Government. We also remain committed to finding ways to innovate new forms of cover to meet the changing risks of business.

We are investing considerable time and resources in both the Corporation and the market in meeting regulatory requirements globally, not least in preparations for Solvency II.

We would like to thank Luke Savage who stood down in July as Finance Director, a position he had held for over a decade. We all wish Luke the very best for the future. We also warmly welcome Fred Hu who has joined the Council of Lloyd's and Joy Griffiths who has joined the Franchise Board.

JOHN NELSON
Chairman

INGA BEALE
Chief Executive

OVERVIEW

MARKET COMMENTARY

The pre-tax profit for the first six months of 2014 is £1,667m (June 2013: £1,379m).

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 2014 is £1,667m (June 2013: £1,379m). Whilst there was a small deterioration in the underwriting result for the first half of 2014 compared to 2013, improved investment returns contributed to a stronger overall result for the Lloyd's market.

UNDERWRITING REVIEW

Gross written premiums for the six months to June 2014 were £14,863m (June 2013: £15,496m) representing a decrease of 4.1%. However, adjusting for the impact of exchange rate movements in underlying currency (June 2014: £1:US\$1.67, June 2013: £1:US\$1.54) produces a small increase in gross written premium of 0.8%. The contribution of new syndicates and modest growth elsewhere was offset by a 3.3% decrease in the aggregate risk adjusted rate, mainly driven by rate decreases in property treaty and energy business.

The Lloyd's market's accident year combined ratio for the six months to June 2014 was 96.2% (June 2013: 95.0%). Whilst major claims activity in aggregate was lower than the same period last year, the aviation sector was impacted by the tragic disappearance in March of Malaysia airlines flight MH370. The second half of 2014 has already experienced further aviation losses with the shooting down of flight MH17, the attacks at Tripoli International Airport, the loss of an Air Algerie flight to Mali and the crash of a TransAsia Airways plane in Taiwan. As the commercial aviation sector approaches its busiest renewal period, terms and conditions and pricing will need to reflect risk exposures.

The first half of 2014 also saw a number of headline weather-related losses, including cold weather events in North America and Japan, windstorm and tornado losses in the US, windstorm Ela and the UK floods. However, these events are not expected to have a material impact on the Lloyd's market. There has also been a lower level of large single risk losses, which in turn has further contributed to levels of competition within the property sector.

The geopolitical events in Russia, Eastern Ukraine, Libya and Middle East have to date not produced material losses in either the Political Risk or Political Violence lines but have led to reduced levels of business from these regions.

The casualty sector is seeing some growth in premium income and exposure, primarily in North America, against a background of moderate claim development. There is considerable activity in cyber related risks with an increasing demand for wider coverage and larger limits which Lloyd's is seeking to monitor. Conditions in the more specialist area of Lloyd's motor sector in the UK remain challenging. Whilst major legal reforms introduced last year may in time help reduce claim costs, claims frequency remains high in this very competitive market.

Prior year reserve releases for the period were £760m (June 2013: £779m) reducing the overall combined ratio by 8.0% to 88.2% (June 2013: 8.1% and 86.9%). Within the marine sector the increase in wreck removal costs, notably for Costa Concordia and MV Rena, have partially offset the benign claims development experience across the class as a whole. Across other classes, with the exception of motor, claims development has been better than expected continuing the recent record of material surpluses on prior year reserves.

Whilst the Lloyd's market has again benefited from a lower level of major claims activity, this intensifies the competitive pressures and the outlook of a continued weakening pricing environment remains.

The balance sheet reports market level capital reserves of £20,719m, a reduction from the year end figure of £21,107m. The reduction is mainly due to the adverse movement in the US dollar exchange rate but still provides the market with a strong capital base.

INVESTMENT REVIEW

The disposition of investments at Lloyd's remains conservative with cash and high-quality fixed interest investments continuing to account for a large proportion of total assets. Investment in volatile asset classes, including equities, has increased slightly but remains a small share of the whole, at less than 10% of total financial investments. Investment return for the six months to June 2014 was £642m or 1.3% (June 2013: £247m, 0.5%), a significant improvement on the return achieved in the first six months of 2013 although in line with the relatively modest returns of the previous five years.

Investments at Lloyd's fall into three areas: insurance premiums invested by the syndicates, members' capital (or funds at Lloyd's) and Lloyd's central assets (principally the Central Fund, which holds the mutual assets which underpin the operation of the market). Investment responsibility for these belongs to managing agents, members and the Corporation of Lloyd's respectively. Investment dispositions vary significantly across these areas leading to differing investment returns. In the period, central assets generated the highest rate of investment return, benefiting from higher exposure to equities, whilst funds at Lloyd's generated the lowest return, arising from a higher proportion of assets held in cash and equivalent instruments.

Financial markets were particularly benign in the first half of 2014 supported by improving economic conditions and increased investor risk appetite. Equity markets benefited from the low level of volatility, delivering solid returns over the period. Meanwhile, central banks maintained their commitment to keep interest rates low for an extended period of time, causing longer dated bond yields to fall further. The resulting capital appreciation has provided a small boost for longer duration fixed interest investments although cash and short dated bonds have continued to produce very low returns.

MARKET RESULTS

THE MARKET'S FINANCIAL RESULTS

MARKET RESULTS

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

STATEMENT OF COUNCIL'S RESPONSIBILITIES

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

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

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

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

INTERIM PRO FORMA FINANCIAL STATEMENTS (PFFS)

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

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

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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



MARKET RESULTS

PRO FORMA PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2014

	Six months ended 30 June 2014		Six months ended 30 June 2013		Full year 2013	
	£m	£m	£m	£m	£m	£m
Technical account						
Gross written premiums						
– Continuing operations		14,864		15,494		26,103
– Discontinued operations		(1)		2		3
		14,863		15,496		26,106
Outward reinsurance premiums		(3,969)		(4,389)		(5,875)
Premiums written, net of reinsurance		10,894		11,107		20,231
Change in the gross provision for unearned premiums		(2,763)		(3,198)		(653)
Change in the provision for unearned premiums, reinsurers' share		1,389		1,683		147
		(1,374)		(1,515)		(506)
Earned premiums, net of reinsurance		9,520		9,592		19,725
Allocated investment return transferred from the non-technical account		396		59		337
		9,916		9,651		20,062
Claims paid						
Gross amount		5,659		6,536		13,153
Reinsurers' share		(1,333)		(1,448)		(3,071)
		4,326		5,088		10,082
Change in provision for claims						
Gross amount		(17)		(538)		(1,392)
Reinsurers' share		370		303		891
		353		(235)		(501)
Claims incurred, net of reinsurance		4,679		4,853		9,581
Acquisition costs		3,213		3,235		5,674
Change in deferred acquisition costs		(562)		(603)		(226)
Administrative expenses		975		904		1,869
(Profit)/loss on exchange		96		(58)		222
Net operating expenses		3,722		3,478		7,539
Balance on the technical account for general business		1,515		1,320		2,942
Attributable to:						
– Continuing operations		1,508		1,314		2,919
– Discontinued operations		7		6		23
Total		1,515		1,320		2,942
Non-technical account						
Balance on the technical account for general business		1,515		1,320		2,942
Investment return on syndicate assets		480		72		379
Notional investment return on funds at Lloyd's		120		157		400
Investment return on Society assets		42		18		60
		642		247		839
Allocated investment return transferred to the technical account		(396)		(59)		(337)
		246		188		502
Other income		29		27		62
Other expenses		(123)		(156)		(301)
Profit/(loss) on ordinary activities before tax		1,667		1,379		3,205
Statement of total recognised gains and losses						
Result for the financial period		1,667		1,379		3,205
Other recognised gains and losses		(67)		37		(123)
Total recognised gains and losses		1,600		1,416		3,082



MARKET RESULTS

PRO FORMA BALANCE SHEET

As at 30 June 2014

	Note	30 June 2014		30 June 2013		31 December 2013	
		£m	£m	£m	£m	£m	£m
Financial investments							
Shares and other variable yield securities		5,727		5,057		5,679	
Debt securities and other fixed income securities		28,134		29,311		29,225	
Participation in investment pools		1,790		1,747		1,908	
Loans and deposits with credit institutions		5,292		6,044		5,343	
Other investments		85		75		97	
Total investments		41,028		42,234		42,252	
Deposits with ceding undertakings		4		7		4	
Reinsurers' share of technical provisions							
Provision for unearned premiums		3,242		3,516		1,909	
Claims outstanding		8,878		10,756		9,557	
		12,120		14,272		11,466	
Debtors							
Debtors arising out of direct insurance operations		6,633		6,966		5,672	
Debtors arising out of reinsurance operations		5,163		5,712		4,041	
Other debtors		898		1,065		744	
		12,694		13,743		10,457	
Other assets							
Tangible assets		38		45		40	
Cash at bank and in hand	9	9,126		10,459		9,242	
Other		21		27		63	
		9,185		10,531		9,345	
Prepayments and accrued income							
Accrued interest and rent		38		52		71	
Deferred acquisition costs		3,383		3,307		2,848	
Other prepayments and accrued income		279		322		136	
		3,700		3,681		3,055	
Total assets		78,731		84,468		76,579	
Capital and reserves							
Members' funds at Lloyd's		14,814		16,081		15,088	
Members' balances		3,430		2,430		3,635	
Members' assets (held severally)		18,244		18,511		18,723	
Central reserves (mutual assets)		1,763		1,637		1,663	
		20,007		20,148		20,386	
Subordinated debt		324		335		330	
Subordinated perpetual capital securities		388		390		391	
Capital, reserves and subordinated debt and securities		20,719		20,873		21,107	
Technical provisions							
Provision for unearned premiums		14,369		14,894		11,838	
Claims outstanding		36,905		41,124		37,983	
		51,274		56,018		49,821	
Deposits received from reinsurers		58		64		46	
Creditors							
Creditors arising out of direct insurance operations		466		687		466	
Creditors arising out of reinsurance operations		4,321		4,882		3,354	
Other creditors including taxation		1,376		1,527		1,346	
		6,163		7,096		5,166	
Accruals and deferred income		517		417		439	
Total liabilities		78,731		84,468		76,579	



MARKET RESULTS

PRO FORMA CASH FLOW STATEMENT

For the six months ended 30 June 2014

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Full year 2013 £m
Pro forma result for the period/year before tax	1,667	1,379	3,205
Depreciation	3	3	13
Realised and unrealised (gains)/losses and foreign exchange	763	(1,033)	1,059
Net sale/(purchase) of investments	368	814	(1,516)
Notional return on funds at Lloyd's	(120)	(157)	(400)
Increase/(decrease) in technical provisions	809	2,660	(729)
(Increase)/decrease in debtors	(3,008)	(3,633)	97
Increase/(decrease) in creditors	1,294	1,220	(599)
Cash generated from operations	1,776	1,253	1,130
Tax paid	(10)	(20)	(29)
Net cash from operating activities	1,766	1,233	1,101
Cash flow from financing activities			
Net profits paid to members	(1,522)	(959)	(937)
Net movement in funds at Lloyd's	(344)	418	(526)
Capital transferred into/(out of) syndicate premium trust funds	14	111	(31)
Purchase of debt securities	-	(195)	(195)
Interest paid	(30)	(41)	(62)
Net increase/(decrease) in cash holdings	(116)	567	(650)
Cash holdings at beginning of period	9,242	9,892	9,892
Cash holdings at 30 June/31 December	9,126	10,459	9,242

MARKET RESULTS

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS

As at 30 June 2014

1. INTRODUCTION

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

2. BASIS OF PREPARATION

General

The PFFS include the aggregate results as reported separately by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the financial statements of the Society of Lloyd's on pages 14 to 39. The syndicate returns include the syndicate level assets, which represent the first link in the Chain of Security.

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

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

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

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

Taxation

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

Funds at Lloyd's

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

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

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

Society of Lloyd's group interim financial statements

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

Transactions between syndicates and the Society

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

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

The subordinated debt and securities

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



MARKET RESULTS

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS CONTINUED

3. ACCOUNTING POLICIES NOTES

A. Syndicate returns

The syndicate level information within the PFFS has been prepared in accordance with UK GAAP. These accounting policies are consistent with those adopted for the PFFS in the 2013 Annual Report. These policies, as regards underwriting transactions, are consistent with the recommendations of the Statements of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers, modified to reflect the unique structure of Lloyd's.

B. Funds at Lloyd's

Funds at Lloyd's are valued in accordance with their market value at the period end, and using period end exchange rates. Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and overseas deposits are stated at cost.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Members that only participate 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 2013 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 2013 Annual Report. As noted on page 23, the Society has adopted three International Accounting Standards that became effective on 1 January 2014. While the adoption of these standards had no material impact on the profits of the Society, certain reclassifications were made to prior year amounts to conform to the current year presentation. The reclassifications are not considered material at the market level and therefore the comparative figures within the interim PFFS have not been restated. There are no material adjustments required to the Society information to present it on a basis consistent with the syndicate results in the PFFS.

4. VARIABILITY

Movements in reserves are based upon best estimates as at 30 June 2014 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur.

5. DISCONTINUED OPERATIONS

Continuing/discontinued operations represent the analysis reported in the syndicate returns between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates. Where business has been reported as discontinued in 2014, the results for that business have also been reported as discontinued in the 2013 comparative figures.

6. MEMBERS' FUNDS AT LLOYD'S

The valuation of members' FAL in the balance sheet totals £14,814m (June 2013: £16,081m, December 2013: £15,088m). The notional investment return on FAL included in the non-technical profit and loss account totals £120m (June 2013: £157m, December 2013: £400m).

7. SOCIETY OF LLOYD'S

The results of the group interim financial statements of the Society included in the profit and loss account are a net profit of £149m (June 2013: £157m, December 2013: £268m) in the technical account and a net loss of £49m (June 2013: £111m, December 2013: £180m) in the non-technical account.

MARKET RESULTS

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS CONTINUED

8. AGGREGATION OF RESULTS AND NET ASSETS

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

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Full year 2013 £m
Result per syndicate returns	1,447	1,176	2,717
Result of the Society	100	39	64
Central Fund claims and provisions charged in Society financial statements	6	28	18
Central Fund recoveries from insolvent members	(1)	–	(2)
Taxation charge in Society financial statements	27	11	14
Notional investment return on members' funds at Lloyd's	120	157	400
Society income not accrued in syndicate returns	(32)	(32)	(6)
Result on ordinary activities pre-tax	1,667	1,379	3,205

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Full year 2013 £m
Result for the period	1,667	1,379	3,205
Other recognised gains and losses per syndicate returns	(67)	31	(130)
Other recognised gains and losses per Society financial statements	–	6	7
Total recognised gains and losses	1,600	1,416	3,082

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Full year 2013 £m
Net assets per syndicate returns	3,443	2,426	3,634
'Equity' of the Society	1,763	1,637	1,663
Central Fund claims and provisions in Society group financial statements	11	27	11
Members' funds at Lloyd's	14,814	16,081	15,088
Unpaid cash calls and undistributed profits reanalysed to members' balances	22	17	4
Society income receivable not accrued in syndicate annual accounts	(46)	(40)	(14)
Capital and reserves per PFFS	20,007	20,148	20,386

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

9. CASH AT BANK AND IN HAND

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' funds at Lloyd's to meet policyholder claims as required totalling £7,196m (June 2013: £8,327m, December 2013: £7,450m).



INDEPENDENT LIMITED ASSURANCE REPORT OF PRICEWATERHOUSECOOPERS LLP TO THE COUNCIL OF LLOYD'S ON THE PREPARATION OF THE 2014 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 2014. 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 2014;
- the pro forma profit and loss account for the period then ended;
- the pro forma statement of total recognised gains and losses for the period then ended;
- the pro forma cash flow statement for the period then ended; and
- the related notes 1 to 9 which have been prepared on the basis set out in note 2.

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 2014 (the interim return), prepared by the managing agent of each syndicate, which has been submitted to the Council of Lloyd's and on which the auditors of each syndicate have given a limited assurance conclusion, in accordance with International Standard on Review Engagements, ISRE 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our work did not involve assessing the quality of those reviews nor performing any audit or review procedures over the financial information of the syndicates.

WHAT A REVIEW OF A PRO FORMA INTERIM SET OF FINANCIAL STATEMENTS INVOLVES

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

Our responsibilities and those of the Council of Lloyd's

The preparation of the interim pro forma financial statements is the responsibility of, and has been approved by, the Council of Lloyd's. The Council of Lloyd's is responsible for preparing 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 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 10 September 2014 (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
24 September 2014
London



SOCIETY REPORT

SOCIETY REPORT

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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SOCIETY REPORT

SOCIETY OF LLOYD'S GROUP INTERIM REVIEW

FINANCIAL REVIEW

Operating surplus

The Society of Lloyd's achieved an operating surplus for the period of £97m (June 2013: £86m). 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 2014 £m	Six months ended 30 June 2013 £m
Total income	106	101	207	214
Central Fund claims and provisions	–	(6)	(6)	(28)
Other group operating expenses	(100)	(4)	(104)	(100)
Operating surplus	6	91	97	86

Corporation of Lloyd's

Total income for the Corporation decreased to £106m during the first half of 2014 (June 2013: £109m). Within this, subscription income reduced in line with the level of premium written, whilst the subscription rate remained unchanged at 0.5%. Income from other sources was generally higher than last year, including increased income from our international network of offices and rental income from higher box capacity.

Other group operating expenses increased slightly to £100m (June 2013: £98m), reflecting the increased investment in the strategic priorities, notably international growth, market operations and preparation for the new Solvency II reporting regime, partially mitigated by efficiencies generated elsewhere.

Lloyd's Central Fund

Total income for the Central Fund decreased to £101m (June 2013: £105m). Contribution income reduced in line with the level of written premium, while the contribution rate remained unchanged for 2014 at 0.5%.

There was a net charge for the period of £6m (June 2013: £28m) in respect of claims arising within the fund. Undertakings to meet the liabilities of insolvent members to policyholders are approved, on an annual basis, at the discretion of the Council and are normally based on anticipated cash flow requirements of insolvent members in the following 12 months. During the period, payments made in respect of insolvent corporate members were £6m (June 2013: £15m).

Other group operating expenses increased to £4m (June 2013: £2m), driven by foreign exchange losses in 2014 (June 2013 expenses were reduced by the benefit of exchange gains) and an increase in bank charges.



SOCIETY REPORT

SOCIETY OF LLOYD'S GROUP INTERIM REVIEW CONTINUED

INVESTMENT PERFORMANCE

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Finance costs	(23)	(30)
Finance income	42	18
Realised/unrealised exchange gains/(losses) on borrowings	7	(11)
	26	(23)
Deficit on subordinated debt repurchase	–	(15)
	26	(38)

The Society's gross investment return was £42m, or 1.7% during the period (June 2013: £18m, 0.6%). Most of the Society's investments are held within the Central Fund where investment dispositions have recently undergone a degree of gradual but planned change, reaching completion in the first half of 2014. Investment in equity and other return seeking assets has become a more significant element of the fund, including a new investment in senior secured loans, but cash and fixed interest investments continue to account for more than two thirds of the Society's investments.

During this period, economic conditions have been favourable for most major asset classes and volatility has been noticeably low. Performance from equity investments has proved solid over the period, adding to an otherwise modest level of return from cash and fixed interest investments. The disposition of the Society's financial investments is set out in note 9 on pages 32 to 33.

Finance costs, which primarily consist of interest arising on subordinated notes and capital securities, reduced to £23m (June 2013: £30m) following the repurchase of debt securities in the prior period. Unrealised exchange gains on borrowings reflect the impact of exchange rate movements on outstanding debt securities and are offset by equivalent currency exposures within investment assets.

Taking the above factors into account, net investment gains during the period were £26m (June 2013: loss of £23m).

There was no repurchase of debt securities during 2014 (June 2013: a total principal amount of £180m of subordinated notes was repurchased, generating a capital loss of £15m).

Results summary

Overall, the surplus after tax for the six months to June 2014 was £100m (June 2013: a surplus of £39m). The net assets of the Society increased by £100m in the six months to June 2014 to £1,763m.



SOCIETY REPORT

COUNCIL OF LLOYD'S STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties, and the way in which they are managed, are set out on page 22 of the Society of Lloyd's 2013 Annual Report under the heading 'Risk Management' within the strategic report. The principal risks and uncertainties were:

- Underwriting losses or capital erosion as a result of failing to effectively manage the insurance cycle;
- The unstable economic and financial climate;
- Significant regulatory change occurring across multiple jurisdictions;
- Catastrophe exposure;
- Strategic threats from changes in the distribution landscape and the influx of non-traditional capital entering the market;
- Potential failure of key outsource service providers.

Since the publication of the Annual Report, the regular risk assessment process has identified two further key risks which have been escalated to the Risk Committee, Franchise Board and Audit Committee through the quarterly Own Risk Solvency Assessment (ORSA) process.

Firstly, there is a risk that the international growth objectives of Vision 2025 may not be delivered as rapidly as originally intended or in a cost-effective manner. In particular, delivery of international growth objectives is dependent upon obtaining suitable insurance licences in new territories, a process which can take considerable time depending upon local legal and regulatory requirements. To mitigate this risk, a range of actions are under way, including considering, in conjunction with the Lloyd's Market Association (LMA), the most appropriate operating models to adopt in different territories in order to expedite licence applications.

Secondly, there is a risk that Lloyd's fails to obtain internal model approval under Solvency II. In advance of the application of Solvency II, Lloyd's has been working with the Prudential Regulation Authority (PRA: formerly the Financial Services Authority) to ensure that Lloyd's and the market meet the relevant tests and standards to obtain approval for the use of the Lloyd's Internal Model (LIM) for setting regulatory capital requirements. However, there remains a residual risk that full approval may not be granted, which would increase capital requirements and have an adverse reputational impact. In order to mitigate this risk, Lloyd's continues to work closely with the PRA and Managing Agents to ensure that all PRA requirements are fulfilled.

The remaining principal risks and uncertainties have not changed materially since the date of the 2013 Annual Report.

COUNCIL OF LLOYD'S STATEMENT OF RESPONSIBILITIES

We confirm that to the best of our knowledge:

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

Chairman

24 September 2014

INGA BEALE

Chief Executive Officer



SOCIETY REPORT

GROUP INCOME STATEMENT

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Operating income		107,013	108,188	216,521
Central Fund contributions	3(I)	98,750	104,220	105,953
General insurance net premium income		1	3	7
Other group income		1,423	1,153	3,111
Total income		207,187	213,564	325,592
Central Fund claims and provisions incurred	3(II)	(5,800)	(28,231)	(17,758)
Gross insurance claims incurred		(5,987)	(4,331)	(20,326)
Insurance claims recoverable from reinsurers		5,987	4,331	20,385
Other group operating expenses		(104,729)	(99,301)	(219,831)
Operating surplus		96,658	86,032	88,062
Finance costs				
– Deficit on subordinated debt repurchase	4A	–	(15,162)	(15,162)
– Other	4A	(22,703)	(30,236)	(55,642)
Finance income	4B	42,216	18,110	60,359
Realised/unrealised exchange gains/(losses) on borrowings		6,674	(11,484)	(6,126)
Share of profits of associates		3,421	2,972	6,843
Surplus before tax		126,266	50,232	78,334
Tax charge	5	(26,617)	(11,563)	(13,987)
Surplus for the period/year		99,649	38,669	64,347



SOCIETY REPORT

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Surplus for the period/year		99,649	38,669	64,347
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement (losses)/gains on pension asset/liabilities				
– UK	6	(12)	7,764	15,004
– Overseas		–	–	194
– Associates		177	84	354
Tax charge relating to items that will not be reclassified	5	(39)	(1,806)	(9,262)
Items that may be reclassified subsequently to profit or loss				
Unrealised loss on revaluation of Lloyd's collection		–	–	(1)
Tax credit relating to items that may be reclassified	5	–	–	375
Net other comprehensive income for the period/year		126	6,042	6,664
Total comprehensive income for the period/year		99,775	44,711	71,011



SOCIETY REPORT

GROUP STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	30 June 2014 £000	Restated 30 June 2013 £000	31 December 2013 (audited) £000
Assets				
Intangible assets		28	108	40
Lloyd's collection		12,506	12,507	12,506
Plant and equipment		25,988	32,651	27,681
Deferred tax asset		5,857	6,496	4,317
Investment in associates		4,875	3,818	7,897
Insurance contract assets		45,530	33,798	38,293
Loans recoverable	11	43,953	44,108	43,499
Financial investments	9	2,803,392	2,880,718	2,792,998
Inventories		282	235	256
Trade and other receivables due within one year		57,380	49,627	39,695
Prepayments and accrued income		26,523	29,953	32,194
Forward currency contracts		20,539	22,923	48,148
Cash and cash equivalents		324,559	184,506	151,274
Total assets		3,371,412	3,301,448	3,198,798
Equity and liabilities				
Equity				
Accumulated reserve		1,750,593	1,624,517	1,650,818
Revaluation reserve		12,506	12,507	12,506
Total equity		1,763,099	1,637,024	1,663,324
Liabilities				
Subordinated notes and perpetual subordinated capital securities	10	712,160	725,360	720,519
Insurance contract liabilities		46,031	34,476	38,840
Pension liabilities	6	35,988	39,627	33,972
Provisions		25,339	42,343	23,481
Loans funding statutory insurance deposits		488,786	557,658	518,090
Trade and other payables		177,445	137,931	131,601
Accruals and deferred income		93,076	93,721	39,290
Tax payable		25,821	9,396	7,987
Forward currency contracts		3,667	23,912	21,694
Total liabilities		1,608,313	1,664,424	1,535,474
Total equity and liabilities		3,371,412	3,301,448	3,198,798

Approved and authorised for issue by the Council of Lloyd's on 24 September 2014 and signed on its behalf by:

JOHN NELSON
Chairman

INGA BEALE
Chief Executive Officer



SOCIETY REPORT

GROUP STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Accumulated reserve £000	Revaluation reserve £000	Total equity £000
At 1 January 2013	1,579,806	12,507	1,592,313
Total comprehensive income for the period	44,711	–	44,711
At 30 June 2013	1,624,517	12,507	1,637,024
Total comprehensive income for the period	26,301	(1)	26,300
At 31 December 2013	1,650,818	12,506	1,663,324
Total comprehensive income for the period	99,775	–	99,775
At 30 June 2014	1,750,593	12,506	1,763,099



SOCIETY REPORT

GROUP STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Note	Six months ended 30 June 2014 £000	Restated Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Cash generated from operations	12	187,213	160,236	100,765
Tax paid		(10,320)	(20,331)	(29,004)
Net cash generated from operating activities		176,893	139,905	71,761
Cash flows from investing activities				
Purchase of plant, equipment and intangible assets		(958)	(377)	(5,375)
Proceeds from the sale of plant, equipment and intangible assets		–	–	14
Purchase of financial investments		(1,721,132)	(1,437,583)	(3,743,539)
Receipts from the sale of financial investments		1,877,416	1,532,089	3,800,551
Increase in short term deposits		(183,208)	(74,772)	(46,039)
Dividends received from associates		6,580	5,640	5,640
Interest received		37,514	32,801	57,220
Dividends received		4,272	2,324	4,626
Realised gains/(losses) on settlement of forward currency contracts		32,771	(27,024)	29,782
Net cash generated from investing activities		53,255	33,098	102,880
Cash flows from financing activities				
Repurchase of subordinated notes		–	(195,124)	(195,124)
Interest paid on subordinated notes		(29,090)	(35,381)	(55,991)
Other interest paid		(565)	(5,581)	(6,264)
(Decrease)/Increase in borrowings for statutory insurance deposits		(30,598)	40,656	30,125
Net cash used in financing activities		(60,253)	(195,430)	(227,254)
Net increase/(decrease) in cash and cash equivalents		169,895	(22,427)	(52,613)
Effect of exchange rates on cash and cash equivalents		3,390	371	(2,675)
Cash and cash equivalents at 1 January		151,274	206,562	206,562
Cash and cash equivalents at 30 June/31 December		324,559	184,506	151,274



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

As at 30 June 2014

1. THE GROUP INTERIM FINANCIAL STATEMENTS

The group interim financial statements of the Society were approved by the Council of Lloyd's on 24 September 2014. 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 2014 and 30 June 2013 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2014, is set out on page 41.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2013 prepared under IFRS as adopted by the EU. Their report was included in the Annual Report 2013 which was published on 26 March 2014 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

The accounting policies, except for the adoption of the amendments to the International Accounting Standards (IAS) that became effective as of 1 January 2014 as stated below, are consistent with those adopted for the Society of Lloyd's Annual Report 2013, which was approved on 25 March 2014.

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 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

On 1 January 2014, the application of the following standards became compulsory for entities reporting in the European Union:

- (a) International Accounting Standard 27 'Separate Financial Statements' (IAS 27) which applies to those entities that elect not to prepare consolidated financial statements and instead prepare separate financial statements as their only financial statements.

The Society prepares consolidated financial statements based on IFRS and so amendments to IAS 27 are not applicable.

- (b) The Society adopted the amendments to IFRS 10 'Consolidated Financial Statements' (IFRS 10) which defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The application of IFRS 10 has no material impact on the group interim financial statements of the Society.

- (c) Amendments to International Accounting Standard 36 'Impairment of Assets' (IAS 36) sets out the procedures that an entity should follow to ensure that it carries its assets at no more than their recoverable amount. Recoverable amount is the higher of the amount to be realised through using or selling the asset. Where the carrying amount exceeds the recoverable amount, the asset is impaired and an impairment loss must be recognised.

The amendments impose certain disclosure requirements for impairments of assets.

The application of amendments to IAS 36 has no impact on the profits reported for the six months ended 30 June 2014 and prior years.

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

During the period ended 30 June 2014, the Society also adopted other new amendments and interpretations to IFRS that became effective on 1 January 2014 which had no material impact on the group interim financial statements of the Society.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

CONTINUED

3. SEGMENTAL ANALYSIS

The Society's primary business segments are as follows:

- (a) Corporation of Lloyd's: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are included within this business segment. Both subscription income and expenses for the Corporation of Lloyd's are generally recognised evenly throughout the period.
- (b) Lloyd's Central Fund: these funds comprising the New Central Fund and Old Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of the policyholders. Unless the approval of members is obtained, the New Central Fund may not be used for the purposes of extinguishing or reducing liabilities which have been reinsured by Equitas. Central Fund contributions are recognised in full during the first half of the year.

	Note	Six months ended 30 June 2014		
		Corporation of Lloyd's £000	Lloyd's Central Fund £000	Society total £000
A) Information by business segment				
Segment income				
Total income		106,425	100,762	207,187
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(5,800)	(5,800)
Gross insurance claims incurred		(5,987)	–	(5,987)
Insurance claims recoverable from reinsurers		5,987	–	5,987
Other group operating expenses:				
– Employment (including pension costs)		(49,641)	–	(49,641)
– Premises		(20,481)	–	(20,481)
– Legal and professional		(7,822)	(252)	(8,074)
– Systems and communications		(11,080)	–	(11,080)
– Other		(11,460)	(3,993)	(15,453)
Total other group operating expenses		(100,484)	(4,245)	(104,729)
Total segment operating expenses		(100,484)	(10,045)	(110,529)
Total segment operating surplus		5,941	90,717	96,658
Finance costs:				
– Deficit on subordinated debt repurchase	4A	–	–	–
– Other	4A	(12)	(22,691)	(22,703)
Finance income	4B	1,061	41,155	42,216
Realised/unrealised exchange gains on borrowings		–	6,674	6,674
Share of profits of associates		3,421	–	3,421
Segment surplus before tax		10,411	115,855	126,266
Tax charge				(26,617)
Surplus for the period				99,649
Segment assets and liabilities				
Investment in associates		4,875	–	4,875
Other assets		955,724	2,404,956	3,360,680
Segment assets		960,599	2,404,956	3,365,555
Tax assets				5,857
Total assets				3,371,412
Segment liabilities		(806,806)	(775,686)	(1,582,492)
Tax liabilities				(25,821)
Total liabilities				(1,608,313)



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

	Note	Restated Six months ended 30 June 2013		Society total £000
		Corporation of Lloyd's £000	Lloyd's Central Fund £000	
A) Information by business segment continued				
Segment income				
Total income		108,546	105,018	213,564
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(28,231)	(28,231)
Gross insurance claims incurred		(4,331)	–	(4,331)
Insurance claims recoverable from reinsurers		4,331	–	4,331
Other group operating expenses:				
– Employment (including pension costs)		(48,226)	–	(48,226)
– Premises		(20,560)	–	(20,560)
– Legal and professional		(7,213)	(191)	(7,404)
– Systems and communications		(11,182)	–	(11,182)
– Other		(10,609)	(1,320)	(11,929)
Total other group operating expenses		(97,790)	(1,511)	(99,301)
Total segment operating expenses		(97,790)	(29,742)	(127,532)
Total segment operating surplus		10,756	75,276	86,032
Finance costs				
– Deficit on subordinated debt repurchase	4A	–	(15,162)	(15,162)
– Other	4A	(32)	(30,204)	(30,236)
Finance income	4B	790	17,320	18,110
Realised/unrealised exchange loss on borrowings		–	(11,484)	(11,484)
Share of profits of associates		2,972	–	2,972
Segment surplus before tax		14,486	35,746	50,232
Tax charge				(11,563)
Surplus for the period				38,669
Segment assets and liabilities				
Investment in associates		3,818	–	3,818
Other assets		993,959	2,297,175	3,291,134
Segment assets		997,777	2,297,175	3,294,952
Tax assets				6,496
Total assets				3,301,448
Segment liabilities		(860,312)	(794,716)	(1,655,028)
Tax liabilities				(9,396)
Total liabilities				(1,664,424)



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

	Note	Full year 2013 (audited)		Society total £000
		Corporation of Lloyd's £000	Lloyd's Central Fund £000	
A) Information by business segment continued				
Segment income				
Total income		217,231	108,361	325,592
Segment operating expenses				
Central Fund claims and provisions incurred	3(II)	–	(17,758)	(17,758)
Gross claims incurred		(20,326)	–	(20,326)
Claims recoverable from reinsurers		20,385	–	20,385
Other group operating expenses:				
– Employment (including pension costs)		(102,487)	–	(102,487)
– Premises		(46,051)	–	(46,051)
– Legal and professional		(16,316)	(686)	(17,002)
– Systems and communications		(23,353)	–	(23,353)
– Other		(24,196)	(6,742)	(30,938)
Total other group operating expenses		(212,403)	(7,428)	(219,831)
Total segment operating expenses		(212,344)	(25,186)	(237,530)
Total segment operating surplus		4,887	83,175	88,062
Finance costs				
– Deficit on subordinated debt repurchase	4A	–	(15,162)	(15,162)
– Other	4A	(50)	(55,592)	(55,642)
Finance income	4B	1,582	58,777	60,359
Realised/unrealised exchange loss on borrowings		–	(6,126)	(6,126)
Share of profits of associates		6,843	–	6,843
Segment surplus before tax		13,262	65,072	78,334
Tax charge				(13,987)
Surplus for the year				64,347
Segment assets and liabilities				
Investment in associates		7,897	–	7,897
Other assets		890,240	2,296,344	3,186,584
Segment assets		898,137	2,296,344	3,194,481
Tax assets				4,317
Total assets				3,198,798
Segment liabilities		(754,322)	(773,165)	(1,527,487)
Tax liabilities				(7,987)
Total liabilities				(1,535,474)



SOCIETY REPORT

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:

	Six months ended 30 June 2014 £000	Restated Six months ended 30 June 2013 £000	Restated Full year 2013 (audited) £000
B) Net central assets			
Central Fund			
Net assets 1 January	1,512,638	1,459,883	1,459,883
Operating surplus	91,523	76,082	84,807
Intra-group transactions	(806)	(805)	(1,632)
Net finance income/(expense)	25,138	(39,530)	(18,103)
Tax charge	(24,830)	(8,305)	(12,317)
Net assets as at 30 June/31 December	1,603,663	1,487,325	1,512,638
Corporation of Lloyd's and subsidiary undertakings	159,436	149,699	150,686
Net Society assets at 30 June/31 December	1,763,099	1,637,024	1,663,324
Subordinated notes	323,670	335,132	330,064
Perpetual subordinated capital securities	388,490	390,228	390,455
Net central assets excluding subordinated debt liabilities	2,475,259	2,362,384	2,383,843

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

During the six months ended 30 June 2014, members paid amounts to the Central Fund (Central Fund contributions) and to the Corporation of Lloyd's (subscriptions) at 0.5% of business plan premium. The ultimate amounts to be retained by the Central Fund and the Corporation of Lloyd's for 2014 will be based on actual 2014 written premiums, of members, the quantification of which will not be known until 2016. The £99m (Central Fund contributions) and £48m (subscriptions) included in the 2014 interim group income statement are based on present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively. On 24 September 2014, the Council approved the repayment of 0.25% of premiums written, arising from 2012 Year of Account Central Fund contributions, which amount to £48m.

(II) Central Fund claims and provisions

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Net undertakings granted	(5,800)	(28,231)	(17,758)
Central Fund claims and provisions incurred	(5,800)	(28,231)	(17,758)

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 2014, undertakings of £6m were paid to corporate members (30 June 2013: £15m; 31 December 2013: £21m).



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

4. FINANCE

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
(A) Finance costs			
Deficit on subordinated debt repurchase	–	(15,162)	(15,162)
Interest payable on financial liabilities measured at amortised cost	(24,377)	(29,694)	(54,565)
Other interest payable and similar charges	(11)	(32)	(50)
Amortisation of issue costs and discount	1,685	(510)	(1,027)
	(22,703)	(45,398)	(70,804)
(B) Finance income			
Bank interest received	1,703	596	1,231
Dividends received	4,272	2,324	4,626
Gain on investments including unrealised movement of forward currency contracts	34,109	14,167	52,352
Movement in loans recoverable	2,132	1,023	2,150
	42,216	18,110	60,359

(C) Subordinated debt repurchase

During 2013, the Society of Lloyd's repurchased a principal amount of £179,962,000 of its outstanding debt securities at a cost of £195,124,000. The Society additionally paid accrued interest on the purchased securities. The loss on the repurchase was £15,162,000. There was no repurchase of debt securities during 2014.

5. TAXATION

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
A) Analysis of total tax charge			
Current tax:			
Corporation tax based on profits for the period at 21.5% (2013: 23.25%)	(27,709)	(12,954)	(22,023)
Adjustments in respect of previous periods	(45)	(10)	2,313
Foreign tax suffered	(404)	(127)	(708)
Total current tax	(28,158)	(13,091)	(20,418)
Deferred tax:			
Origination and reversal of timing differences:			
– Current year	1,384	1,514	7,438
– Prior year	157	14	(1,007)
Tax charge recognised in the group income statement	(26,617)	(11,563)	(13,987)
Analysis of tax credit/(charge) recognised in the group statement of comprehensive income:			
Deferred tax:			
Unrealised gain on revaluation of Lloyd's collection	–	–	375
Tax credit/(charge) on actuarial loss on pension liabilities			
– Group	2	(1,786)	(9,180)
– Associates	(41)	(20)	(82)
Tax charge recognised in the group statement of comprehensive income	(39)	(1,806)	(8,887)
Total tax charge	(26,656)	(13,369)	(22,874)



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

5. TAXATION CONTINUED

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
B) Reconciliation of effective tax rate			
Surplus on ordinary activities before tax	126,266	50,232	78,334
Corporation tax at 21.5% (2013: 23.25%)	(27,147)	(11,679)	(18,213)
Expenses not deductible for tax purposes	(222)	(546)	(3,295)
Utilisation of tax credits	44	29	74
Overseas tax	(404)	(127)	(325)
Other	1,000	756	1,918
Deferred tax adjustments relating to change in tax rate	–	–	4,548
Deferred tax prior year adjustments	157	14	(1,007)
Adjustments in respect of previous years	(45)	(10)	2,313
Tax charge	(26,617)	(11,563)	(13,987)

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 balance sheet date.

The UK corporation tax rate was reduced to 21% (with effect from 1 April 2014) and to 20% (with effect from 1 April 2015) as enacted by Finance Act 2013 on 2 July 2013. The effect of the reductions in the tax rate was a reduction in the net deferred tax liability. The full reduction to 20% was reflected in the amounts recognised at 31 December 2013. No further reductions in the tax rate had been announced at 30 June 2014.

6. PENSION ASSETS/LIABILITIES

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19R 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2014 was £35m (30 June 2013: deficit of £38m; 31 December 2013: deficit of £32m) before the allowance of deferred tax. An actuarial loss of £12,000 has been recognised in the six months ended 30 June 2014 (30 June 2013: actuarial gain £8m; 31 December 2013: actuarial gain £15m).

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 2014 is £1m (30 June 2013: £2m; 31 December 2013: £1m).



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

7. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT

Six months ended
30 June 2014
£000

Cost:	
At 1 January 2013	4,819
Additions	149
Disposals	(65)
At 30 June 2013	4,903
Additions	53
Disposals	(122)
At 31 December 2013	4,834
Additions	9
Disposals	(55)
At 30 June 2014	4,788
Amortisation:	
At 1 January 2013	4,553
Charge for the period	262
Disposals	(20)
At 30 June 2013	4,795
Charge for the period	96
Disposals	(97)
At 31 December 2013	4,794
Charge for the period	20
Disposals	(54)
At 30 June 2014	4,760
Net book value at 30 June 2014	28
Net book value at 31 December 2013	40
Net book value at 30 June 2013	108



SOCIETY REPORT

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 2013	53,735	22,110	71	75,916
Additions	711	283	7	1,001
Disposals	(391)	(53)	(4)	(448)
At 30 June 2013	54,055	22,340	74	76,469
Additions	2,510	1,643	19	4,172
Disposals	(2,020)	(1,443)	(3)	(3,466)
At 31 December 2013	54,545	22,540	90	77,175
Additions	705	244	-	949
Transfer	601	(601)	-	-
Disposals	(392)	(109)	(2)	(503)
At 30 June 2014	55,459	22,074	88	77,621
Depreciation and impairment:				
At 1 January 2013	27,684	13,068	17	40,769
Depreciation charge for the period	1,781	1,558	8	3,347
Disposals	(257)	(41)	-	(298)
At 30 June 2013	29,208	14,585	25	43,818
Depreciation charge for the period	1,747	1,470	10	3,227
Impairment losses	5,233	46	-	5,279
Disposals	(1,423)	(1,406)	(1)	(2,830)
At 31 December 2013	34,765	14,695	34	49,494
Depreciation charge for the period	1,160	1,392	10	2,562
Disposals	(316)	(106)	(1)	(423)
At 30 June 2014	35,609	15,981	43	51,633
Net book value at 30 June 2014	19,850	6,093	45	25,988
Net book value at 31 December 2013	19,780	7,845	56	27,681
Net book value at 30 June 2013	24,847	7,755	49	32,651



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

9. FINANCIAL INVESTMENTS

	30 June 2014 £000	30 June 2013 £000	31 December 2013 (audited) £000
Statutory insurance deposits	494,039	563,984	527,340
Other investments	2,309,353	2,316,734	2,265,658
	2,803,392	2,880,718	2,792,998

A) Statutory insurance deposits

	Securities £000	30 June 2014 Deposits £000	Total £000	30 June 2013 £000	31 December 2013 (audited) £000
Market value at 1 January	262,423	264,917	527,340	508,463	508,463
Additions at cost	458,200	127,559	585,759	464,867	950,381
Disposal proceeds	(457,518)	(148,902)	(606,420)	(423,336)	(921,128)
(Deficit)/surplus on the sale and revaluation of investments	(7,522)	(5,118)	(12,640)	13,990	(10,376)
Market value	255,583	238,456	494,039	563,984	527,340

	30 June 2014 Cost £000	Valuation £000	30 June 2013 Cost £000	Valuation £000	31 December 2013 (audited) Cost £000	Valuation £000
Analysis of securities at period end:						
Government	261,284	255,583	254,730	255,031	266,178	262,423



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

9. FINANCIAL INVESTMENTS CONTINUED

B) Other investments

	Corporation of Lloyd's £000	30 June 2014 Lloyd's Central Fund £000	Total £000	30 June 2013 Total £000	31 December 2013 (audited) Total £000
Market value at 1 January	108,710	2,156,948	2,265,658	2,333,592	2,333,592
Additions at cost	6,580	1,128,793	1,135,373	972,716	2,793,158
Increase in short-term deposits	53,874	129,334	183,208	74,772	46,039
Disposal proceeds	(71,927)	(1,199,069)	(1,270,996)	(1,108,753)	(2,879,423)
(Deficit)/surplus on the sale and revaluation of investments	(222)	(3,668)	(3,890)	44,407	(27,708)
Market value	97,015	2,212,338	2,309,353	2,316,734	2,265,658
Analysis of securities at period end:					
Listed securities:					
Fixed interest:					
– Government	–	556,215	556,215	652,081	624,303
– Corporate securities	–	712,332	712,332	1,021,001	890,075
– Emerging markets	–	77,685	77,685	60,108	70,975
– High yield	–	41,637	41,637	42,807	37,269
	–	1,387,869	1,387,869	1,775,997	1,622,622
Equities:					
– Global	–	411,778	411,778	250,582	359,402
– Emerging markets	–	47,479	47,479	46,608	46,018
	–	459,257	459,257	297,190	405,420
Total listed securities	–	1,847,126	1,847,126	2,073,187	2,028,042
Unlisted securities:					
– Hedge funds	–	125,040	125,040	93,198	119,152
– Commodities	–	–	–	38,957	35,805
– Loan Investments	–	71,320	71,320	–	–
– Short-term deposits	97,015	148,852	245,867	91,392	62,659
– Security deposits	–	20,000	20,000	20,000	20,000
Total unlisted securities	97,015	365,212	462,227	243,547	237,616
Market value	97,015	2,212,338	2,309,353	2,316,734	2,265,658



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

10. SUBORDINATED NOTES AND PERPETUAL SUBORDINATED CAPITAL SECURITIES

	30 June 2014 £000	30 June 2013 £000	31 December 2013 (audited) £000
Details of loans payable wholly or partly after more than five years:			
6.875% subordinated notes of £153m maturing 17 November 2025	153,241	153,241	153,241
5.625% subordinated notes of €214m maturing 17 November 2024	171,196	183,242	177,876
7.421% perpetual subordinated capital securities of £392m redeemable on 21 June 2017	392,013	392,013	392,013
	716,450	728,496	723,130
Less issue costs to be charged in future years	(4,093)	(2,700)	(2,297)
Less discount on issue to be unwound in future years	(197)	(436)	(314)
	712,160	725,360	720,519

Subordinated debt repurchases

During 2013, the Society of Lloyd's repurchased principal amounts of £146,759,000 and €38,878,000 (£33,203,000). There was no repurchase of debt securities during 2014.

Fair values

The fair value (based on quoted offer prices) of subordinated debt is £780.7m (30 June 2013: £800.3m; 31 December 2013: £793.8m).

11. FINANCIAL INSTRUMENTS

Fair value hierarchy

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



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

11. FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy *continued*

	Note	30 June 2013			Total £000
		Level 1 £000	Level 2 £000	Level 3 £000	
Financial investments at fair value through profit or loss					
Statutory insurance deposits (note 9A)					
Listed securities		–	2,778	–	2,778
Unlisted securities		–	252,253	–	252,253
Deposits with credit institutions		–	308,953	–	308,953
Total statutory insurance deposits	9A	–	563,984	–	563,984
Other investments (note 9B)					
Listed securities		753,165	1,022,832	–	1,775,997
Equity investments		297,190	–	–	297,190
Unlisted securities		–	132,155	–	132,155
Deposits with credit institutions		111,392	–	–	111,392
Total other investments	9B	1,161,747	1,154,987	–	2,316,734
Forward currency contracts					
Currency conversion service		–	10,917	–	10,917
Other forward foreign exchange contracts		–	12,006	–	12,006
Total forward currency contracts		–	22,923	–	22,923
Loans recoverable					
		–	–	44,108	44,108
Total financial assets at fair value through profit or loss		1,161,747	1,741,894	44,108	2,947,749
Financial liabilities at fair value through profit or loss					
Forward currency contracts					
Currency conversion service		–	(10,728)	–	(10,728)
Other forward foreign exchange contracts		–	(13,184)	–	(13,184)
Total forward currency contracts		–	(23,912)	–	(23,912)
Total financial liabilities at fair value through profit or loss		–	(23,912)	–	(23,912)



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

11. FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy *continued*

	Note	31 December 2013 (audited)			Total £000
		Level 1 £000	Level 2 £000	Level 3 £000	
Financial investments at fair value through profit or loss					
Statutory insurance deposits (note 9A)					
Listed securities		–	2,316	–	2,316
Unlisted securities		–	260,108	–	260,108
Deposits with credit institutions		–	264,916	–	264,916
Total statutory insurance deposits	9A	–	527,340	–	527,340
Other investments (note 9B)					
Listed securities		732,547	890,075	–	1,622,622
Equity investments		405,420	–	–	405,420
Unlisted securities		–	154,956	–	154,956
Deposits with credit institutions		82,660	–	–	82,660
Total other investments	9B	1,220,627	1,045,031	–	2,265,658
Forward currency contracts					
Currency conversion service		–	11,900	–	11,900
Other forward foreign exchange contracts		–	36,248	–	36,248
Total forward currency contracts		–	48,148	–	48,148
Loans recoverable		–	–	43,499	43,499
Total financial assets at fair value through profit or loss		1,220,627	1,620,519	43,499	2,884,645
Financial liabilities at fair value through profit or loss					
Forward currency contracts					
Currency conversion service		–	(14,369)	–	(14,369)
Other forward foreign exchange contracts		–	(7,325)	–	(7,325)
Total forward currency contracts		–	(21,694)	–	(21,694)
Total financial liabilities at fair value through profit or loss		–	(21,694)	–	(21,694)

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.

Level 2

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

Level 3

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



SOCIETY REPORT

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 2014	30 June 2013	31 December 2013 (audited)
	£000	£000	£000
Loans recoverable			
At 1 January	43,499	45,138	45,138
Recoveries during the period/year	(1,678)	(2,053)	(3,789)
Fair value movements recognised during the period/year	2,132	1,023	2,150
At 30 June/31 December	43,953	44,108	43,499

Recoverable Central Fund loans made to hardship members are managed on a fair value basis and relate solely to the revaluation of hardship, LFAA 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 2014.

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

Sensitivity analysis

Loan recoverable sensitivities

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

As at 30 June 2014, 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 £0.3m (30 June 2013: £0.3m; 31 December 2013: £0.5m). This analysis assumes that all other variables, including inflationary increases and discounted rates, remain the same.



SOCIETY REPORT

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

12. CASH GENERATED FROM OPERATIONS

	Note	30 June 2014 £000	Restated 30 June 2013 £000	31 December 2013 (audited) £000
Surplus before tax		126,266	50,232	78,334
Finance cost – deficit on subordinated note repurchase		–	15,162	15,162
Net finance income	4	(19,513)	12,126	(4,717)
Unrealised exchange (gains)/losses on borrowings		(6,674)	11,484	6,126
Share of profits of associates		(3,421)	(2,972)	(6,843)
Operating surplus		96,658	86,032	88,062
Central Fund claims and provisions incurred		5,800	28,231	17,758
Operating surplus before Central Fund claims and provisions		102,458	114,263	105,820
Adjustments for:				
Depreciation of plant and equipment		2,562	3,347	6,574
Amortisation of intangible assets		20	262	358
Impairment losses		–	–	5,279
Losses/(gains) on sale and revaluation of fixed assets		81	(577)	841
Losses on investments including unrealised movements of forward currency contracts		(36,555)	(22,976)	(25,099)
Foreign exchange (gains)/losses on operating activities		(3,390)	(371)	2,675
Operating surplus before working capital changes and claims paid		65,176	93,948	96,448
Changes in pension obligations		2,004	2,316	4,096
Decrease/(increase) in receivables		9,015	19,702	(1,246)
(Increase)/decrease in inventories		(26)	1	(20)
Increase in payables		114,986	57,500	23,107
Increase/(decrease) in provisions other than for Central Fund claims		1,858	1,896	(693)
Cash generated from operations before claims paid		193,013	175,363	121,692
Claims paid in respect of corporate/insolvent members		(5,800)	(15,127)	(20,927)
Cash generated from operations		187,213	160,236	100,765

13. COMMITMENTS

Capital expenditure commitments contracted but not provided for in the financial statements totalled £9,390,000 (30 June 2013: £78,000; 31 December 2013: £9,300,000).



SOCIETY REPORT

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.

On 25 March 2014, the Council approved the dividends payment of £77,000 per ordinary share at a total cost of £77,000,000 to be paid to the Society of Lloyd's from Centrewrite Limited.

Services provided to Ins-sure Holdings Limited group in the period ended 30 June 2014 included operating systems support and development, premises and other administrative services.

Services provided to Xchanging Claims Services Limited group in the period ended 30 June 2014 included premises and other administrative services.

Services provided to The Message Exchange Limited in the period ended 30 June 2014 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/years together with information regarding the outstanding balances at 30 June 2014, 30 June 2013 and 31 December 2013.

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Sales to related parties			
Associates:			
– Ins-sure Holdings Limited	148	142	286
– Xchanging Claims Services Limited	40	54	99
Joint venture:			
– The Message Exchange Limited	–	–	–
Purchases from related parties			
Associates:			
– Ins-sure Holdings Limited	1,882	2,706	4,695
– Xchanging Claims Services Limited	–	8	6
Joint venture:			
– The Message Exchange Limited	637	490	958
Amounts owed by related parties			
Associates:			
– Ins-sure Holdings Limited	8	23	4
– Xchanging Claims Services Limited	3	3	3
Joint venture:			
– The Message Exchange Limited	31	25	–
Amounts owed to related parties			
Associates:			
– Ins-sure Holdings Limited	22	80	460
– Xchanging Claims Services Limited	–	–	–
Joint venture:			
– The Message Exchange Limited	–	93	69



SOCIETY REPORT

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 2014 amounted to £24.4m (30 June 2013: £26.5m; 31 December 2013: £26.7m).
- (b) The Society has taken on the responsibilities of some individual members under hardship and other agreements.

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

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

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

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Full year 2013 (audited) £000
Guarantees provided by the Society:			
US: US\$1,500,000 (2013: US\$1,500,000)	877	989	906

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 2014, no provision has been made in the Society financial statements.



INDEPENDENT REVIEW REPORT TO THE SOCIETY OF LLOYD'S

REPORT ON THE CONDENSED SET OF SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

Our conclusion

We have reviewed the condensed set of interim financial statements, defined below, in the Group Interim Financial Statements of the Society of Lloyd's for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

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

What we have reviewed

The condensed set of interim financial statements, which is prepared by the Society of Lloyd's, comprises:

- the group statement of financial position as at 30 June 2014;
- the group income statement and statement of comprehensive income for the period then ended;
- the group statement of cash flows for the period then ended;
- the group statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

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

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

What a review of a condensed set of financial statements involves

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

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

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

RESPONSIBILITIES FOR THE CONDENSED SET OF INTERIM FINANCIAL STATEMENTS AND THE REVIEW

Our responsibilities and those of the Council of Lloyd's

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

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

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants
24 September 2014
London



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