Half year results

Contents

2020 At a Glance

Financial highlights

- Gross written premium increases to £20,047m (June 2019: £19,689m), reflecting strong rate increases and offset by reduced volumes
- The Lloyd's market made a loss of £438m in the period (June 2019: a profit of £2,325m), primarily driven by COVID-19 losses
- Combined ratio stands at 110.4% (June 2019: 98.8%)*, however marked improvement reported when excluding major claims
- Capital, reserves and subordinated loan notes increase to £32,842m (December 2019: £30,638m)

Gross written premium

£m	Half year	Full year
2016	16,307	29,862
2017	18,881	33,591
2018	19,338	35,527
2019	19,689	35,905
2020	**20,047**	

Result before tax

£m	Half year	Full year
2016	1,461	2,107
2017	1,216	(2,001)
2018	588	(1,001)
2019	2,325	2,532
2020	**(438)**	

Capital, reserves and subordinated loan notes

£m	Half year	Full year
2016	26,617	28,597
2017	27,979	27,560
2018	29,045	28,222
2019	32,435	30,638
2020	**32,842**	

Central assets

	Half year	Full year
2016	2,745	2,879
2017	2,905	2,981
2018	3,115	3,211
2019	3,402	3,285
2020	**3,464**	

Return on capital annualised* (%)

	Half year	Full year
2016	11.7	8.1
2017	8.9	(7.3)
2018	4.3	(3.7)
2019	15.5	8.8
2020	**(2.8)**	

Combined ratio* (%)

	Half year	Full year
2016	98.0	97.9
2017	96.9	114.0
2018	95.5	104.5
2019	98.8	102.1
2020	**110.4**	

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

* The return on capital and the combined ratio are metrics which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in this interim report) are Alternative Performance Measures (APMs), with further information available on page 57.

Introduction

Statement from the Chief Executive

The first half of 2020 has been an exceptionally challenging period for our people, our customers, and for economies around the world. The ongoing COVID-19 global pandemic has inflicted catastrophic societal and economic damage calling for unparalleled measures to stifle the spread of the virus, and to get businesses and economies back on their feet.

Lloyd's has demonstrated real resilience and strength during a truly challenging moment in global history. We continue to pay out millions of pounds in claims to our customers impacted by the global pandemic. In addition, our recent white paper "Supporting global recovery and resilience for customers and economies: the insurance response to COVID-19" sets out a number of ways the insurance industry could fast-track global economic and societal recovery from the far-reaching impacts of COVID-19.

The Corporation has also committed a £15m package of support for charitable organisations responding to the pandemic, together with £15m in seed capital investment to develop a Systemic Risk Centre of Excellence, which aims to better understand, model and provide insurance for systemic catastrophic events.

We have made considerable progress against our three strategic priorities of performance, strategy and culture – each of which remain crucial to our future success.

Pronounced improvement in performance

Through H1 2020 we have continued our focus on driving sustained performance improvement across the market and have made good progress in getting back to delivering sustainable long-term profitability. Our H1 results demonstrate that our robust approach to performance management and remediation has begun to take effect, evidenced by a significant turnaround in the underlying performance of the market.

In the first half of 2020, Lloyd's made an overall loss of £0.4bn, driven by COVID-19 claims of £2.4bn adding 18.7 percentage points to the market's combined ratio of 110.4%. However, excluding COVID-19 claims, the market's combined ratio has shown substantial improvement at 91.7%, down from 98.8% in H1 2019. This encouraging development is supported by a marked 7.1 percentage point improvement in the attritional loss ratio which has dropped to 52.6% in the first six months of 2020 (H1 2019: 59.7%), with prior year development remaining stable at 0.5% (H1 2019: 0.4%).

Gross written premiums of £20.0bn represent a 1.7% increase over the same period in 2019. However, eliminating foreign exchange rate movements, overall premium increased by just 0.1%. Positive rate momentum accelerated in the first six months of 2020, with the market achieving average risk adjusted rate increases on renewal business of 8.7%. This was offset by a 8.6% decrease in business volumes across the market. This reduction in business volumes further demonstrates that over the past three years we have really understood where we want to focus on successful business, including reselecting what we underwrite.

The H1 2020 expense ratio has dropped marginally from 38.1% to 37.7%, with the Future at Lloyd's programme central to our long-term aim of reducing total acquisition costs and administration expenses.

Lloyd's remains well capitalised to withstand the impacts of COVID-19 with an estimated ultimate loss of £3.0bn (this assumes further losses arising from event cancellation and credit), having completed two accelerated market wide capital collections. In the first six months of 2020, the market's net resources increased by 7.2% to £32.8bn as at 30 June 2020 (FY 2019: £30.6bn), reinforcing the exceptional strength of Lloyd's balance sheet with a central solvency ratio of 250%.

We have made excellent progress through the first half of 2020, in some of the best underwriting conditions we have seen in a decade. But although the indications suggest we are returning to profitability, our focus on performance must remain unerring. As we enter the 2021 business planning cycle, against the backdrop of an uncertain global economic outlook, there has never been a more crucial time for business and capital plans to be well executed to ensure we return the market to profitability on a sustainable long-term basis.

Building a better future for our market and our customers

Throughout the first six months of 2020, we continued to execute against our ambition to create the world's most advanced insurance marketplace. The pandemic has underlined the importance of the Future at Lloyd's and we have sharpened our focus to prioritise development in three key areas that will deliver the most impact and value to the market and our customers in 2020 and 2021: improving electronic placement, enhancing Delegated Authority services, and making improvements to claims processes. In parallel, we will progress the underpinning data and technology capabilities we need to deliver the ultimate solutions.

We have taken the opportunity to accelerate the implementation of digital enhancements and technology by building a virtual Underwriting Room that will enable brokers and underwriters to connect and collaborate online wherever they are, alongside the physical trading environment in Lime Street. This is an exciting milestone for Lloyd's which will allow the market to reach out in real time to its customers and partners all around the world.

We'll be launching the Future at Lloyd's Blueprint update in November this year, which will set out in more detail the roadmap for 2021 and beyond.

Sitting alongside our aims to improve performance and deliver on our strategy, is our commitment to drive long term culture change across Lloyd's market. Earlier this year we set market-wide gender targets and published a Culture Dashboard. This marked the fulfilment of the commitments we made in 2019 and builds a foundation for our ongoing initiatives to build a more inclusive environment for all.

Statement from the Chief Executive

We have also resolved to improve the experience, level the playing field and increase the representation of Black and Minority Ethnic talent in our market. As part of this, in June we committed to five initial meaningful and measurable actions, as well as confirming our intention to set a market ethnicity target in Q2 2021.

We have put in place a series of actions to accelerate change, but we still have much work to do and we must be impatient in our resolve to get there. As we slowly emerge from COVID-19, we as a market must take the opportunity to think about the ways in which we can collectively build back better. We must take positive action to help tackle the many challenges society faces, such as inequality, poverty, disease and climate change. We must reflect on how we could build a better, less polluted, lower carbon world and work together to achieve it.

This is a once in a generation moment to help rewrite the future of our society, and we must seize it together.

John Neal
Chief Executive Officer

Market Commentary

Market results

The Lloyd's Market reported an overall loss of £0.4bn for the first six months of 2020 (H1 2019: profit of £2.3bn). The result is comprised of net investment income of £0.9bn and underwriting losses of £1.3bn, which has been driven by £2.4bn of claims arising from the COVID-19 pandemic. The reported combined ratio is 110.4%, however excluding losses from the COVID-19 pandemic the combined ratio is 91.7%, which is an improvement on the first six months of 2019 – 98.8%.

Underwriting result

Whilst the Lloyd's Market has reported underwriting losses for the first six months of 2020, the impact of COVID-19 overshadows the improvement in underlying performance.

Major claims have contributed 20.6% to the combined ratio (H1 2019: 1.4%), with COVID-19 related claims accounting for the majority at 18.7%. The Lloyd's Market also continued its trend of prior year releases, albeit these had a small impact on the combined ratio with a benefit of 0.5% (H1 2019: 0.4%). There have been releases across most classes of business, offset by strengthening in the property and casualty classes.

Adjusting the combined ratio for the contributions from major claims and prior year releases, the Lloyd's Market reported an underlying accident year ratio of 89.8% for the first six months of 2020; an improvement on the 97.4% reported for the first six months of 2019 and the 96.0% reported for the 2019 financial year. The 2020 half year accident year ratio is in line with the target for the Lloyd's Market.

The main contributor to the improvement in the underlying accident year ratio is the reduction in the attritional loss ratio which stands at 52.6%, representing a 7.1 percentage point reduction from the ratio reported for the first six months of 2019 and a 4.7 percentage point reduction from that reported for the 2019 financial year. The improvement in the attritional loss ratio is the result of sustained risk adjusted rate increases on renewal business and the Market's actions to drive sustainable profitable performance. There has also been a small improvement in the Market's expense ratio which has reduced to 37.7% from 38.1% for the first six months of 2019.

The Lloyd's Market gross written premiums increased 1.7% when compared to the first six months of 2019, however excluding the impact of foreign exchange movements, the increase is marginal at 0.1%. Whilst the Market has seen a period of sustained risk adjusted rate increases on renewal business - which stood at 8.7% for the first six months of 2020 - volume reductions in the period of 8.6% have offset this benefit. Volume reductions reflect the continued focus on driving sustainable profitable performance which has resulted in several syndicates exiting or re-underwriting certain classes of business and curbing risk appetites in poor performing classes. Risk adjusted rate increases on renewal business have been experienced across all major classes and geographies.

Investment review

The Market reported net investment income of £0.9bn for the first six months of 2020, representing an investment return* of 1.2% (June 2019: £2.3bn, return of 3.2%).

Investment return for the first six months of 2020 was impacted by the effect of the COVID-19 pandemic on global financial markets and economies. Investment performance was disappointing in the first quarter but recovered in the second quarter due to improved performance from government bonds, credit markets and growth assets. Growth assets have managed to recover most of their losses in the second quarter as risk sentiment improved considerably.

Balance Sheet strength

The Lloyd's Market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £32.8bn at 30 June 2020, an increase from the £30.6bn reported at 31 December 2019.

The Lloyd's Market's solvency ratios – the market wide and the central solvency ratios – have also recovered from the lows reported in March 2020. The market-wide solvency ratio was 155% and the central solvency ratio was 250% at 30 June 2020. These reflect increases in members' assets, including their Funds at Lloyd's – as members injected additional capital to cover their funding shortfalls and losses arising from COVID-19 – and increases in the net assets of the Society of Lloyd's.

The market-wide and central solvency ratios reported above are based on solvency capital requirements (SCRs) which have been calculated using the latest approved version of the Lloyd's Internal Model. The changes to economic conditions in the first six months of 2020 have resulted in Lloyd's applying for voluntary add-ons to the approved model SCR outputs to ensure the current risk profile is reflected. The add-ons are £1.3bn to the market-wide SCR and £0.4bn to the central SCR and are effective from 26 August 2020, the date of the PRA's approval. These add-ons result in estimated market-wide and central solvency ratios of 144% and 200% respectively at 26 August 2020.

Market Commentary *continued*

COVID-19

The COVID-19 pandemic has impacted the global economy and financial markets in the first six months of 2020. It has impacted financial performance and operations of many businesses around the globe, some more drastically than others. The Society of Lloyd's and the Lloyd's Market have not been immune to the effects of the pandemic – both financial performance and operations have been impacted – however adequate steps have been taken to minimise the effects, including maintaining the market's strong capitalisation.

The Society of Lloyd's global staff began working from home on 17 March 2020, closely followed by the Lloyd's underwriting room closing its doors on the 19 March 2020. Since then, with the support of the technological infrastructure already in place, the Society and the Lloyd's Market have continued to operate successfully. The Society continues to fully employ its staff globally during the pandemic; it has not relied upon any form of government assistance. Following government guidelines, health and safety has been followed carefully for a return to work strategy, with UK employees given the option to continue working from home or work in the office on a rotational basis. The underwriting room has opened again on 1 September 2020, with new policies and procedures introduced; details of this have been published on Lloyds.com.

A commitment has been made to donate £15m to a number of charities concerned with healthcare, wellbeing and innovation and up to £15m of seed capital investment has been made available for the development of a Centre of Excellence to build resource and capability to better understand, model and create products that better protect customers against systemic risks, including pandemics.

The overall cost of COVID-19 insurance claims for the Lloyd's Market is estimated to be in the range of £2.5bn to £3.5bn. The Lloyd's Market results for the first six months of 2020 has seen £2.4bn of insured losses booked to date with current indications that the overall costs will be £3bn, within the range quoted. The majority of the losses are expected to emanate from the US and UK, across the Contingency, Property D&F, Property Treaty, Political Risks, Credit and Financial Guarantee classes. Whilst the estimated insured losses to the Lloyd's Market is significant, the impact of the COVID-19 pandemic is an earnings eroding event and it does not threaten the Society of Lloyd's or Lloyd's Market's ability to meet its solvency requirements.

Despite the significant insured losses booked in the first six months, the Society of Lloyd's and Lloyd's Market capital position has strengthened since 31 December 2019. During the second quarter of 2020 Lloyd's members injected additional capital to ensure the estimated losses arising from the COVID-19 pandemic were adequately covered; where estimates have changed since and additional capital injections are required these amounts were received by early September 2020.

In addition, the Society has updated its risk assessment to consider the impact of the COVID-19 pandemic with the key areas of focus being: claims experience and the potential impact on underwriting profitability, the continued functioning of systems and processes in a different working environment and the impact of economic conditions on financial assets.

Market Results

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

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

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

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

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

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

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 via syndicates. These syndicates can comprise one single corporate member or any number of corporate and individual members, underwriting severally for their own account. In view of Lloyd's unique structure, the Interim Report includes two sets of financial statements.

Interim pro forma financial statements

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

Pro Forma Profit and Loss Account

(For the six months ended 30 June 2020)

		Six months ended 30 June 2020		Six months ended 30 June 2019		Full year 2019	
Technical account	Note	**£m**	**£m**	£m	£m		
Gross written premiums	8	**20,047**		19,689		35,905	
Outward reinsurance premiums		**(6,388)**		(6,186)		(10,246)	
Premiums written, net of reinsurance			**13,659**		13,503		25,659
Change in the gross provision for unearned premiums		**(2,879)**		(2,564)		186	
Change in the provision for unearned premiums, reinsurers' share		**1,789**		1,746		(24)	
			(1,090)		(818)		162
Earned premiums, net of reinsurance	8		**12,569**		12,685		25,821
Allocated investment return transferred from the non-technical account			**662**		941		1,371
			13,231		13,626		27,192
Claims paid							
Gross amount		**10,512**		11,641		22,991	
Reinsurers' share		**(2,952)**		(3,593)		(7,133)	
			7,560		8,048		15,858
Change in provision for claims							
Gross amount		**3,150**		(865)		1,083	
Reinsurers' share		**(1,569)**		514		(580)	
			1,581		(351)		503
Claims incurred, net of reinsurance	8		**9,141**		7,697		16,361
Net operating expenses	8, 9		**4,741**		4,840		9,998
Balance on the technical account for general business			**(651)**		1,089		833
Non-technical account							
Balance on the technical account for general business			**(651)**		1,089		833
Investment return on syndicate assets		**692**		1,130		1,667	
Notional investment return on members' funds at Lloyd's	5	**276**		1,051		1,657	
Investment return on Society assets		**(28)**		134		213	
		940		2,315		3,537	
Allocated investment return transferred to the technical account		**(662)**		(941)		(1,371)	
			278		1,374		2,166
Profit/(loss) on exchange			**113**		20		(54)
Other income			**25**		32		59
Other expenses			**(203)**		(190)		(472)
Result for the financial period before tax	7		**(438)**		2,325		2,532

All operations relate to continuing activities.

Pro Forma Statement of Comprehensive Income

(For the six months ended 30 June 2020)

Statement of comprehensive income	Note	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 £m
Result for the financial period	7	**(438)**	2,325	2,532
Currency translation differences		**9**	39	31
Other comprehensive gains/(losses) in the syndicate annual accounts		**15**	14	14
Remeasurement of losses on pension assets/liabilities in the Society accounts		**(16)**	(34)	(49)
Total comprehensive (loss)/income for the financial period		**(430)**	2,344	2,528

Pro Forma Balance Sheet

(As at 30 June 2020)

		30 June 2020		30 June 2019		31 December 2019	
	Note	£m	£m	£m	£m	£m	£m
Investments							
Financial investments	10		**66,799**		63,754		63,562
Deposits with ceding undertakings			**67**		36		38
Reinsurers' share of technical provisions							
Provision for unearned premiums		**5,743**		5,627		3,700	
Claims outstanding		**22,522**		19,469		19,897	
			28,265		25,096		23,597
Debtors							
Debtors arising out of direct insurance operations		**10,702**		10,464		9,014	
Debtors arising out of reinsurance operations		**10,313**		8,540		8,256	
Other debtors		**1,141**		2,055		929	
			22,156		21,059		18,199
Other assets							
Tangible assets		**28**		30		28	
Cash at bank and in hand	11	**11,643**		11,007		9,631	
Other		**76**		139		140	
			11,747		11,176		9,799
Prepayments and accrued income							
Accrued interest and rent		**109**		114		110	
Deferred acquisition costs		**5,108**		5,138		4,404	
Other prepayments and accrued income		**318**		294		169	
			5,535		5,546		4,683
Total assets			**134,569**		126,667		119,878
Capital, reserves and subordinated loan notes							
Members' funds at Lloyd's	5	**29,365**		29,002		27,595	
Members' balances	12	**13**		31		(242)	
Members' assets (held severally)			**29,378**		29,033		27,353
Central reserves (mutual assets)			**2,669**		2,608		2,491
	7		**32,047**		31,641		29,844
Subordinated loan notes	2		**795**		794		794
Total capital, reserves and subordinated loan notes			**32,842**		32,435		30,638
Technical provisions							
Provision for unearned premiums		**20,945**		20,483		17,143	
Claims outstanding		**65,598**		59,668		59,655	
			86,543		80,151		76,798
Deposits received from reinsurers			**822**		360		880
Creditors							
Creditors arising out of direct insurance operations		**1,701**		1,590		1,402	
Creditors arising out of reinsurance operations		**8,595**		7,441		6,751	
Other creditors including taxation		**2,484**		3,566		2,378	
Senior debt	2	**299**		–		–	
			13,079		12,597		10,531
Accruals and deferred income			**1,283**		1,124		1,031
Total liabilities			**134,569**		126,667		119,878

Approved by the Council on 8 September 2020 signed on its behalf by

Bruce Carnegie-Brown Chairman

John Neal Chief Executive Officer

Pro Forma Statement of Cash Flows

(For the six months ended 30 June 2020)

	Note	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 £m
Result for the financial period before tax		**(438)**	2,325	2,532
Increase/(decrease) in gross technical provisions		**8,657**	1,710	(869)
(Increase)/decrease in reinsurers' share of gross technical provisions		**(4,336)**	(1,679)	(410)
(Increase)/decrease in debtors		**(4,148)**	(4,669)	(2,777)
Increase in creditors		**2,590**	3,968	2,987
Movement in other assets/liabilities		**(539)**	(199)	618
Investment return		**(940)**	(2,315)	(3,537)
Depreciation		**5**	4	6
Tax paid		**(7)**	(32)	(69)
Foreign exchange		**(700)**	(42)	1,404
Other		**23**	11	172
Net cash flows from operating activities		**167**	(918)	57
Investing activities				
Purchase of equity and debt instruments		**(16,937)**	(24,175)	(37,871)
Sale of equity and debt instruments		**16,839**	24,080	36,856
Purchase of derivatives		**(4,743)**	(2,413)	(4,721)
Sale of derivatives		**4,727**	2,412	4,736
Investment income received		**409**	479	170
Other		**(42)**	102	30
Net cash flows from investing activities		**253**	485	(800)
Financing activities				
Net profits or losses paid to members		**1,218**	716	963
Net capital transferred (out of)/into syndicate premium trust funds		**(115)**	(208)	(405)
Interest paid on subordinated notes		**(14)**	(15)	(38)
Senior loan note issuance	2	**299**	–	–
Net movement in members' funds at Lloyd's		**486**	(31)	(1,156)
Other		**63**	41	174
Net cash flows from financing activities		**1,937**	503	(462)
Net increase/(decrease) in cash and cash equivalents		**2,357**	70	(1,205)
Cash and cash equivalents at 1 January		**11,128**	12,395	12,395
Exchange differences on cash and cash equivalents		**88**	–	(62)
Cash and cash equivalents at 30 June/31 December	13	**13,573**	12,465	11,128

Notes to the Interim Pro Forma Financial Statements

(At 30 June 2020)

1. The Interim Pro Forma Financial Statements

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

2. Basis of preparation

General

The interim PFFS have been prepared by aggregating financial information reported by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the interim financial statements of the Society of Lloyd's on pages 30 to 55. Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the interim PFFS.

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

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

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

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

(a) Aggregation

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

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

Inter-syndicate loans

The syndicate returns report debtor and creditor balances for inter-syndicate loans totalling £169m (June 2019: £160m, December 2019: £127m). These amounts have been eliminated from the amounts reported in the balance sheet to provide a more meaningful presentation of the balance sheet for users of the interim PFFS.

Special Purpose Arrangements (SPA)

Due to the nature of SPA, the quota share of the host syndicate's business is reported as gross written premiums in both the host syndicate and SPA. This leads to an overstatement of the original premiums written by the whole Lloyd's market. To provide users of the interim PFFS with a more meaningful presentation of the market's figures, all the reinsurance transactions of the SPA have been eliminated. The key impact of this elimination is that gross written premium is reduced by £343m (June 2019: £301m, December 2019: £568m). The elimination does not affect the interim PFFS net result or the balance due to members. All other inter-syndicate reinsurance arrangements are included in full.

Transactions between syndicates and the Society

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

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

2. Basis of preparation *continued*

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

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

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

(c) Statement of Changes in Equity

Where Lloyd's is not the investment manager for FAL, actual changes are not available and therefore a statement of changes in equity has not been included. However, a statement of changes in members' balances has been included in note 12, which, along with the Society's interim Group Statement of Changes in Equity (on page 33), represents the changes in equity of the other components of the interim PFFS.

(d) Taxation

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

(e) Related party transactions

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

Members' funds at Lloyd's (FAL)

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

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

Subordinated loan notes

In accordance with the terms of the Society's subordinated loan notes, the capital raised is available to satify the obligations of the central fund in advance of repayment to the note holders and is included in 'capital, reserves and subordinated loan notes' in the pro forma balance sheet. Note 10 to the Society interim financial statements on page 53 provides additional information.

Senior debt

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's strategy. Note 10 to the Society interim financial statements on page 53 provides additional information.

Society of Lloyd's interim financial statements

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

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

3. Accounting policies notes

(a). Syndicate returns

The syndicate level information within the interim PFFS has been prepared in accordance with the recognition and measurement requirements of FRS 102 and FRS 103. These accounting policies are consistent with those adopted in the PFFS in the 2019 Annual Report.

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

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

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

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

Members that only participate in one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust fund. Where a member takes advantage of this facility, the capital held in the premium trust fund is reported within members' balances and the investment return retained within the non-technical account. These policies are consistent with those adopted in the PFFS in the 2019 Annual Report.

(c). Society of Lloyd's

The accounting policies adopted in the Society of Lloyd's interim financial statements are set out on pages 35 to 36. Adjustments have been made to the information incorporated into the interim PFFS where the Council have considered there to be material accounting policy differences between the existing EU adopted International Financial Reporting Standards (IFRS) accounting policies and the recognition and measurement requirements of UK GAAP.

4. Variability

Movements in reserves are based upon estimates as at 30 June 2020 taking into account all available information as at the balance sheet date. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur. The aggregate of the prior year surpluses is £67m (June 2019 surplus: £52m, December 2019 surplus: £232m). The surplus arises across the reinsurance, energy, motor, life and marine, aviation and transport lines of business, reflecting favourable claims development compared to projections. In the interim PFFS, this information is not subject to auditor review.

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

The valuation of FAL in the balance sheet totals £29,365m (June 2019: £29,002m, December 2019: £27,595m). The notional investment return on FAL included in the non-technical profit and loss account totals £276m (June 2019: £1,051m, December 2019: £1,657m).

6. Society of Lloyd's

The results of the Group interim financial statements of the Society included in the profit and loss account are a profit of £233m (June 2019: £234m, December 2019: £434m) in the technical account and a loss of £69m (June 2019: loss of £2m, December 2019: loss of £249m) in the non-technical account.

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

7. Aggregation of results and net assets

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

Profit and loss account	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 £m
Result per syndicate interim returns	**(878)**	1,042	690
Result of the Society	**174**	228	137
Elimination of IFRS to UK GAAP accounting basis adjustments	**–**	(2)	–
Taxation charge in Society financial statements	**44**	53	33
Notional investment return on members' funds at Lloyd's	**276**	1,051	1,657
Movement in Society income not accrued in syndicate interim returns	**(54)**	(47)	15
Result for the financial period before tax	**(438)**	2,325	2,532

Capital and reserves	**30 June 2020 £m**	30 June 2019 £m	31 December 2019 £m
Net assets per syndicate interim returns	**37**	79	(209)
Net assets of the Society	**2,899**	2,720	2,601
Elimination of syndicate loans and IFRS to UK GAAP accounting basis adjustments	**(230)**	(112)	(110)
Members' funds at Lloyd's	**29,365**	29,002	27,595
Unpaid cash calls reanalysed from debtors to members' balances	**51**	37	(11)
Society income receivable not accrued in syndicate interim returns	**(75)**	(85)	(22)
Total capital and reserves	**32,047**	31,641	29,844

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

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

8. Segmental analysis

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

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

Six months ended 30 June 2019	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Under-writing result £m
Reinsurance	7,288	3,821	(2,482)	(1,348)	(9)
Property	5,103	3,365	(1,794)	(1,489)	82
Casualty	4,471	3,337	(2,031)	(1,411)	(105)
Marine, Aviation and Transport	1,434	1,212	(853)	(472)	(113)
Energy	806	447	(182)	(182)	83
Motor	543	473	(336)	(159)	(22)
Life	44	30	(19)	(13)	(2)
Total from syndicate operations	19,689	12,685	(7,697)	(5,074)	(86)
Transactions between syndicates and the Society (notes 2 and 6) and insurance operations of the Society	–	–	–	234	234
Interim PFFS premiums and underwriting result	19,689	12,685	(7,697)	(4,840)	148
Allocated investment return transferred from the non-technical account					941
Balance on the technical account for general business					1,089

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

9. Net operating expenses

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 £m
Acquisition costs	**4,659**	4,840	8,977
Change in deferred acquisition costs	**(433)**	(449)	138
Administrative expenses	**1,121**	1,041	2,155
Reinsurance commissions and profit participation	**(606)**	(592)	(1,272)
Total operating expenses	**4,741**	4,840	9,998

10. Financial investments

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Shares and other variable yield securities	**9,023**	9,533	9,055
Debt securities and other fixed income securities	**46,697**	43,559	44,208
Participation in investment pools	**2,618**	2,259	2,484
Loans and deposits with credit institutions	**8,313**	8,314	7,635
Other investments	**148**	89	180
Total investments	**66,799**	63,754	63,562

11. Cash at bank and in hand

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' FAL to meet policyholder claims as required, totalling £7,342m at 30 June 2020 (June 2019: £7,981m, December 2019: £6,856m).

12. Members' balances

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 £m
Balance at 1 January	**(242)**	(1,472)	(1,472)
Result for the period per syndicate interim returns	**(878)**	1,042	690
Losses collected/(profits paid) in relation to distribution on closure of the 2017 (2016) underwriting year	**1,106**	71	83
Advance distributions from open underwriting years	**(11)**	(40)	(40)
Cash calls requested (but not yet paid)	**123**	685	920
Net movement on funds in syndicate (see note below)	**(115)**	(208)	(405)
Exchange gains/(losses)	**19**	35	36
Other	**11**	(82)	(54)
Balance at 30 June/31 December	**13**	31	(242)

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

Members that only participate on one syndicate may hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 30 June 2020 there was £4,725m (June 2019: £4,873m, December 2019: £4,616m) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

Notes to the Interim Pro Forma Financial Statements *continued*

(At 30 June 2020)

13. Note to the statement of cash flows

Cash and cash equivalents comprise the following:

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Cash at bank and in hand	**11,643**	11,007	9,631
Short term deposits with credit institutions	**2,207**	1,818	1,798
Overdrafts	**(277)**	(360)	(301)
Cash and cash equivalents	**13,573**	12,465	11,128

Of the cash and cash equivalents, £333m (June 2019: £264m, December 2019: £320m) is held in regulated bank accounts in overseas jurisdictions.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2020 Lloyd's Interim Pro Forma Financial Statements

The Council of Lloyd's engaged us to provide limited assurance on the Interim Pro Forma Financial Statements defined below for the six months ended 30 June 2020.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Interim Pro Forma Financial Statements for the six months ended 30 June 2020 (the "interim PFFS") have not been prepared, in all material respects, in accordance with the basis of preparation set out in note 2.

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

Scope of work

The scope of our work was limited to assurance over the interim PFFS, prepared by the Council of Lloyd's, which comprise:

– the pro forma balance sheet as at 30 June 2020;
– the pro forma profit and loss account for the period then ended;
– the pro forma statement of comprehensive income for the period then ended;
– the pro forma statement of cash flows for the period then ended; and
– the related notes 1 to 13 which have been prepared on the basis set out in note 2.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Interim Report.

Professional standards applied and level of assurance

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

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our Independence and Quality Control

We complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and which is at least as demanding as Part A and Part B of the IESBA Code of Ethics.

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

Work done

The interim PFFS 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 part A – Quarter 2 2020 ("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, (UK & Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our work did not involve assessing the quality of those reviews nor performing any audit or review procedures over the financial information of the syndicates.

We are required to plan and perform our work in order to consider the risk of material misstatement of the interim PFFS. In doing so, our procedures consisted of making enquiries to obtain an understanding of how the Council of Lloyd's has compiled the interim PFFS from the syndicate interim returns and the Society of Lloyd's condensed interim financial statements, how the members' funds at Lloyd's have been valued, and the nature of adjustments made to this information in the preparation of the interim PFFS; and applying analytical and other review procedures. This work is performed in order to provide us with a basis for reporting whether anything has come to our attention that causes us to believe that the Interim PFFS is not prepared, in all material respects, in accordance with the above basis of preparation. The engagement also involves evaluating the overall presentation of the interim PFFS.

Independent Limited Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2019 Lloyd's Interim Pro Forma Financial Statements *continued*

The Council of Lloyd's responsibilities

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

We are responsible for:

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

Intended users and purpose

This report, including our conclusions, has been prepared solely for the Council of Lloyd's in accordance with our engagement letter dated 4 September 2020. Our examination has been undertaken so that we might state to the Council those matters which have come to our attention in accordance with the engagement letter and for no other purpose. We permit this report to be disclosed in the Interim Report, to assist the Council of Lloyd's in responding to their governance responsibilities by obtaining an independent assurance report in connection with the interim PFFS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Lloyd's for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
9 September 2020

Society Report

Society of Lloyd's Group Interim Review

Financial review

Operating surplus

The Society achieved an operating surplus* for the period of £144m (30 June 2019: £155m, 31 December 2019: £61m). 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 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Total income	190	127	317	317	483
Gross written premiums	1,072	–	1,072	1,031	2,466
Outward reinsurance premiums	(1,072)	–	(1,072)	(1,031)	(2,466)
Group operating expenses	(174)	1	(173)	(162)	(422)
Operating surplus*	**16**	**128**	**144**	155	61

Corporation of Lloyd's

Total income for the Corporation marginally decreased to £190m during the first half of 2020 (30 June 2019: £192m; 31 December 2019: £358m). Charge rates are unchanged for members' subscriptions and overseas operating charges, which continue to be the main sources of income. Subscription income for the period is £64m (30 June 2019: £65m, 31 December 2019: £125m). Members' subscription charges for the current underwriting year are based on the Syndicate business forecast gross written premiums. The reduction in total income is due to the market modernisation levy, which was charged for the final time in 2019. A residual amount of levy income has been earned in the current period.

Gross written premiums have decreased slightly compared to the previous period. 2020 is the second year of underwriting by Lloyd's Brussels, which accounts for the vast majority of the Society's gross written premiums. All business underwritten through the Corporation is 100% reinsured to Lloyd's Syndicates.

Corporation operating expenses have increased to £174m (30 June 2019: £160m, 31 December 2019: £422m). This is mainly due to increased investment in market initiatives compared to the comparative period through the Future at Lloyd's programme and preparation of the Part VII transfer of 2020 and prior EEA business to Lloyd's Brussels, proposed for the latter half of 2020. Approximately half of the total investment in the Future at Lloyd's during the period has been capitalised as intangible assets, reflecting the expected future benefits to the Society and the market.

Lloyd's Central Fund

Total income for the Central Fund remained flat at £127m (30 June 2019: £125m, 31 December 2019: £125m). The rate charged continued at 0.35% (1.4% for new Syndicates) of gross written premium ("GWP"). There was no charge in the current or prior period in respect of claims arising within the Central Fund and no payments were made in respect of insolvent corporate members in the current or prior period. The Central Fund recorded a net credit of £1m in operating expenses (30 June 2019: £2m debit, 31 December 2019: £nil) on account of foreign exchange gains on operational balances more than offsetting expenses incurred for the period.

* The operating surplus is a metric which is consistently used to analyse financial performance in the Society Report. This metric (wherever used in the Interim Report) is an Alternative Performance Measure (APM), with further information available on page 57.

Society of Lloyd's Group Interim Review *continued*

Investment performance

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Finance costs	**(30)**	(26)	(51)
Finance income	**99**	148	151
Net finance income	**69**	122	100

The Society's investments, mostly held within the Central Fund, returned £99m or 2.1% during the first half of the year (June 2019: £148m, 3.5%). Excluding exchange rate movements, investments returned a loss of £28m or -0.6% during the same period (June 2019: £136m or 3.2%).

As a result of COVID-19, the volatility and turmoil in the markets witnessed over March created extreme risk aversion and a rush for liquidity, which caused stresses across several asset classes. This led to significant losses in the Society's emerging markets, global equities and fund investments. Over the second quarter the financial markets rebounded strongly as the growth in COVID-19 related cases slowed, and much of the losses were regained. Central Banks cut interest rates, asset purchases were restarted or increased and liquidity was injected into money markets. The corporate bond markets, which suffered losses during the sell-off, had positive returns by the end of June. In core government markets, Central Banks cut rates aggressively, which drove a reduction in risk-free yields, resulting in capital gains for government bonds.

The Society's currency policy, which aims to preserve the solvency strength of the Central Fund by holding US Dollars, resulted in mark to market gains from US Dollar strengthening against Sterling over the first half of the year. Investment return was therefore positive when including foreign exchange impacts.

Results summary

Overall, the surplus after tax for the six months to June 2020 was £174m (June 2019: a surplus of £228m, 31 December 2019: a surplus of £137m). The net other comprehensive surplus for the period was £8m (June 2019: £35m deficit, 31 December 2019: £63m deficit), as currency translation gains were largely offset by an actuarial loss on pension liabilities. Overall, the net assets of the Society increased by £298m in the six months to June 2020 to £2,899m (June 2019: £2,720m, 31 December 2019: £2,601m), boosted by the issuance of an additional £120m of syndicate loans.

Society of Lloyd's Group Interim Review *continued*

Solvency

The Society's solvency position is set out below.

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	31 December 2019 (audited) £m
Central net assets per Group statement of financial position	**2,899**	2,720	2,601
Subordinated debt	**795**	794	794
Total	**3,694**	3,514	3,395
Solvency valuation adjustments	**319**	442	367
Available central own funds to meet the Central SCR	**4,013**	3,956	3,762
Excess central own funds not eligible to cover the Central SCR	**(112)**	(225)	(188)
Eligible central own funds to meet the Central SCR	**3,901**	3,731	3,574
Central SCR	**1,558**	1,400	1,500
Central solvency ratio	**250%**	267%	238%

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

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

The eligibility of assets to count towards the solvency coverage is also subject to tiering restrictions. All Tier 1 assets count fully towards the solvency coverage assessment. However, Tier 2 and Tier 3 assets may only count up to a maximum of 50% of the SCR. The inclusion of the Tier 2 subordinated debt issued means that Lloyd's Tier 2 and 3 central capital exceeded 50% of the Central SCR by £112m as at June 2020 (June 2019: £225m, 31 December 2019: £188m).

Based on central own funds eligible to meet the Central SCR of £3.9bn (June 2019: £3.7bn, 31 December 2019: £3.6bn), the estimated solvency ratio is 250% (June 2019: 267%, December 2019: 238%). In setting contribution levels, account is taken of the Central SCR to ensure that Lloyd's is prudently but competitively capitalised.

The central solvency ratio reported above is based on the solvency capital requirements (SCR) which has been calculated using the latest approved version of the Lloyd's Internal Model. The changes to economic conditions in the first six months of 2020 has resulted in Lloyd's applying for a voluntary add-on to the approved model SCR output to ensure the current risk profile is reflected. The add-on is £0.4bn to the central SCR and is effective from 26 August 2020, the date of the PRA's approval. This add-on results in an estimated central solvency ratio of 200% at 26 August 2020.

Lloyd's Insurance Company S.A. ("Lloyd's Brussels")

The Society is continuing with its plans to ensure that existing non-life EEA insurance (and, where required, reinsurance) policies written by the Lloyd's market can be serviced after the transition period, including the payment of valid insurance claims. To achieve this, the Society is proposing to transfer all relevant non-life EEA business that has been written by the Lloyd's market between 1993 and 2020 to Lloyd's Brussels, by the end of 2020. This will be undertaken via an insurance business transfer under Part VII of the UK's Financial Services and Markets Act 2000.

The Brexit Withdrawal Agreement was signed between the UK and the EU in January 2020 and includes provision for a transition period lasting until 31 December 2020. This period is intended to provide time for negotiations to be conducted as to the future relationship between the UK and the EU. Whilst the risks of a "no deal" exit have been averted, the Executive Committee and senior management of the Society continue to work to assess risks which may arise at the end of the transition period and minimise their impact on the Society, the Lloyd's market and its policyholders, and to seek optimal operating conditions. This includes completing the Part VII transfer and continuing to call for a positive EU reinsurance equivalence determination with respect to the UK to harmonise reinsurance market access to EEA member states.

Lloyd's Brussels is a Solvency II compliant insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority to write non-life risks across all markets within the EEA. The Corporation started writing business incepting from 1 January 2019. All Lloyd's Brussels policies are 100% reinsured to Lloyd's Syndicates and therefore backed by Lloyd's unique Chain of Security capital structure, providing excellent financial security to policyholders. As such the company has the same financial strength ratings as the Society.

Society of Lloyd's Group Interim Review *continued*

Response to COVID-19

In response to COVID-19, the Corporation's global staff began working from home on 17 March, closely followed by the Lloyd's underwriting room closing its doors on 19 March. With the support of the technological infrastructure already in place, flexible working and mental health and well-being high on the agenda, the Society has continued to operate successfully.

Dedicated COVID-19 lines have been set up to alleviate the additional queries for both staff and the market, with a Corporation response team enlisted to provide clarity and guidance.

In response to COVID-19 the Society has committed £15m in charitable donations. To date £7m has been donated: £5m to the ABI COVID-19 Fund, £1m to Lloyd's Charities Trust for the Lloyd's Market Awards, and £1m to charities put forward by Lloyd's global offices.

Following government guidelines, health and safety has been followed carefully for a return to work strategy, with UK employees given the option to continue working from home or work in the office on a rotational basis. The underwriting room has opened again on 1 September, with new policies and procedures introduced, details of this have been publish on Lloyds.com.

Going Concern Statement

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

The Society has revised forecast results for the remainder of the current year and subsequent years to reflect the possible financial implications of the ongoing disruption caused by COVID-19. This included considering possible reductions in operating income and additional provision for charges to the Central Fund. The revised forecast, together with the de-risking plan for the Central Fund investment portfolio, sensitivity analysis of the pension obligations to market movements and other financal risks arising from the COVID-19 pandemic, have been considered in making the going concern assessment. Both the forecast solvency and liquidity position of the Society have taken these factors into account.

The impact of COVID-19 on the financial position of the Society is outlined in note 12 to the Society's interim financial statements.

Council of Lloyd's Statement of Principal Risks and Uncertainties

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

Principal risks in the Lloyd's risk framework are:
- The inherent uncertainty of major insurance loss events;
- Sustainable market performance;
- Delivery of major change programmes (including the Future at Lloyd's);
- The future relationship between the UK and the European Union;
- The economic environment with low interest rates and recession; and
- Evolving cyber security threats.

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

COVID-19

The COVID-19 pandemic is causing global economic uncertainty and social restrictions which are directly impacting the Lloyd's market and changing the dynamics of the risks above. Since March, the majority of Corporation employees have been working remotely and the underwriting room has been closed. These operational challenges, as well as the uncertainty in relation to claims exposure and the economic downturn are being actively managed by the Lloyd's market.

The impacts of COVID-19 and associated controls are actively monitored to provide assurance that risks are appropriately managed through this evolving environment. Lloyd's undertook an additional "Own Risk and Solvency Assessment" (ORSA) process to identify the full range of COVID-19 risks. Examples of the key COVID-19 risks and the controls in place include:

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

Council of Lloyd's Statement of Responsibilities

We confirm that to the best of our knowledge:

– The condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU, which gives a true and fair view of the assets, liabilities, financial position and profit or loss for the six months ended 30 June 2020;
– The statement from the Chief Executive and the Society Group interim review (constituting the interim management report) include a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;
– The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year; and
– The financial statements include a fair review of the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period, as well as any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

On behalf of the Council of Lloyd's:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

9 September 2020

Group Income Statement

(For the six months ended 30 June 2020)

	Note	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Corporation operating income	3	**190**	192	358
Central Fund income	3	**127**	125	125
Gross written premiums	3	**1,072**	1,031	2,466
Outward reinsurance premiums	3	**(1,072)**	(1,031)	(2,466)
Total income		**317**	317	483
Gross insurance claims and insurance expenses incurred		**(953)**	(329)	(1,302)
Insurance claims and expenses recoverable from reinsurers		**953**	329	1,302
Group operating expenses		**(173)**	(162)	(422)
Operating surplus		**144**	155	61
Finance costs	4	**(30)**	(26)	(51)
Finance income	4	**99**	148	151
Share of profits of associates and joint ventures		**5**	4	9
Surplus before tax		**218**	281	170
Tax charge	5	**(44)**	(53)	(33)
Surplus for the period/year		**174**	228	137

Group Statement of Comprehensive Income

(For the six months ended 30 June 2020)

	Note	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Surplus for the period/year		**174**	228	137
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement loss on pension liabilities	6	**(27)**	(41)	(59)
Tax credit relating to items that will not be reclassified	5	**11**	7	10
Items that may be reclassified subsequently to profit or loss				
Currency translation differences		**24**	(1)	(14)
Net other comprehensive surplus/(deficit) for the period/year		**8**	(35)	(63)
Total comprehensive income for the period/year		**182**	193	74

Group Statement of Financial Position

(As at 30 June 2020)

	Note	**30 June 2020 £m**	30 June 2019 £m	31 December 2019 (audited) £m
Assets				
Intangible assets	7(i)	**43**	11	16
Lloyd's Collection		**15**	15	15
Plant and equipment	7(ii)	**13**	10	13
Right-of-use asset		**165**	168	156
Deferred tax asset		**54**	41	47
Investment in associates and joint ventures	2	**29**	19	21
Insurance contract assets		**2,469**	1,090	1,878
Loans recoverable		**33**	34	34
Financial investments at fair value through profit and loss	8	**2,869**	2,760	2,788
Financial investments at amortised cost	8	**1,289**	1,198	1,174
Trade and other receivables due within one year		**1,139**	1,021	1,145
Prepayments and accrued income		**17**	33	12
Derivative financial instruments	8	**23**	7	25
Cash and cash equivalents		**1,115**	693	533
Total assets		**9,273**	7,100	7,857
Equity and liabilities				
Equity				
Accumulated reserve		**2,620**	2,572	2,466
Translation reserve		**34**	23	10
Revaluation reserve		**15**	15	15
Syndicate loans	2, 9	**230**	110	110
Total equity		**2,899**	2,720	2,601
Liabilities				
Senior and subordinated debt	10	**1,094**	794	794
Insurance contract liabilities		**2,469**	1,090	1,878
Pension liabilities	6	**168**	133	140
Provisions		**74**	24	80
Loans funding statutory insurance deposits		**770**	672	690
Trade and other payables		**1,383**	1,276	1,372
Accruals and deferred income		**188**	161	136
Tax payable		**35**	54	1
Lease liability		**162**	161	152
Derivative financial instruments	8	**31**	15	13
Total liabilities		**6,374**	4,380	5,256
Total equity and liabilities		**9,273**	7,100	7,857

Approved and authorised for issue by the Council of Lloyd's on 8 September 2020 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Group Statement of Changes in Equity

(For the six months ended 30 June 2020)

	Note	Accumulated reserve £m	Translation reserve £m	Revaluation reserve £m	Syndicate loans £m	Total equity £m
At 1 January 2019		2,378	24	15	–	2,417
Syndicate loans		–	–	–	110	110
Surplus for the period		228	–	–	–	228
Net other comprehensive deficit for the period		(34)	(1)	–	–	(35)
At 30 June 2019		2,572	23	15	110	2,720
Deficit for the period		(91)	–	–	–	(91)
Net other comprehensive deficit for the period		(15)	(13)	–	–	(28)
At 31 December 2019		2,466	10	15	110	2,601
Syndicate loans	2, 9	**–**	**–**	**–**	**120**	**120**
Dividend paid on syndicate loans	2, 9	**(4)**	**–**	**–**	**–**	**(4)**
Surplus for the period		**174**	**–**	**–**	**–**	**174**
Net other comprehensive (deficit)/surplus for the period		**(16)**	**24**	**–**	**–**	**8**
At 30 June 2020		**2,620**	**34**	**15**	**230**	**2,899**

Group Statement of Cash Flows

(For the six months ended 30 June 2020)

	Note	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Cash generated from operations	11	**181**	232	145
Tax paid		**(7)**	(32)	(69)
Net cash generated from operating activities		**174**	200	76
Cash flows from investing activities				
Purchase of intangibles	7(i)	**(29)**	(6)	(12)
Purchase of plant and equipment	7(ii)	**(3)**	(1)	(5)
Purchase of financial investments	8	**(1,433)**	(1,079)	(2,110)
Receipts from the sale of financial investments	8	**1,394**	887	1,834
Increase in short-term deposits	8	**(38)**	(55)	(10)
Dividends received from associates and joint ventures		**5**	4	7
Investment in joint venture	2	**(7)**	–	–
Interest received		**20**	12	52
Dividends received	4	**3**	3	7
Settlement of forward currency contracts		**17**	1	(9)
Net cash used in investing activities		**(71)**	(234)	(246)
Cash flows from financing activities				
Syndicate loans	9	**120**	110	110
Senior loan note issuance	10(i)	**299**	–	–
Interest paid on subordinated notes		**(14)**	(15)	(38)
Dividend paid on syndicate loans	9	**(4)**	–	–
Increase in borrowings for statutory insurance deposits		**80**	47	65
Lease payments		**(13)**	(14)	(27)
Net cash generated from financing activities		**468**	128	110
Net increase/(decrease) in cash and cash equivalents		**571**	94	(60)
Effect of exchange rates on cash and cash equivalents		**11**	(2)	(8)
Cash and cash equivalents at 1 January		**533**	601	601
Cash and cash equivalents at 30 June/31 December		**1,115**	693	533

Notes to the Group Interim Financial Statements

(As at 30 June 2020)

1. The Group interim financial statements

The Group interim financial statements of the Society were approved by the Council on 9 September 2020. The Group interim financial statements comprise the consolidation of the Society and all its subsidiary undertakings, the Society's Central Fund and the Group's interest in associates and joint ventures as at each statement of financial position date. The Group interim financial statements for the six months ended 30 June 2020 and 30 June 2019 are unaudited. The auditor's independent review report to the Society, for the six months ended 30 June 2020, is set out on page 56. The Society Group interim financial statements should be read in conjunction with the financial statements for the year ended 31 December 2019.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2019 prepared under International Financial Reporting Standards (IFRS) as adopted by the EU. Their report was included in the Annual Report 2019 which was published on 26 March 2020 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

These Group interim financial statements have been prepared on the going concern basis and in conformity with IAS 34 'Interim Financial Reporting' (as adopted by the EU) which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The main accounting policies identified involving such assessments are unchanged from those reported in the 2019 Annual Report.

The accounting policies, except for the adoption of the amendments to the IFRS that became effective as of 1 January 2020 as stated below, are consistent with those adopted for the Society's 2019 Annual Report, which was approved on 24 March 2020. The Society has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The Society has not adopted any new IFRS standards for the period beginning 1 January 2020.

The Society adopted the following amendments with effect from 1 January 2020:

– Definition of material – amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors: amends the definition of material to ensure consistency across IFRSs;
– Revised conceptual framework for financial reporting: the revised conceptual framework does not result in any immediate change to IFRS, but will be used in setting future standards;
– Definition of a business – amendments to IFRS 3 Business Combinations: changes the definition of a business combination, and hence transactions that are accounted for as asset acquisitions;
– Interest rate benchmark reform – amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments, recognition and measurement and IFRS 7 Financial instruments (disclosures): provides temporary relief from applying specific hedge accounting requirements to hedge relationships directly affected by Inter-bank Offering Rates reform; and
– COVID-19 related rent concessions – amendments to IFRS 16 Leases: provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

The Society's accounting policies have been updated to reflect these changes. Implementation of the above amendments to existing standards has had no impact on the Group interim financial statements.

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

IFRS 17 – Insurance contracts

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

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

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

Further information on the Society's current accounting policy for insurance contracts is provided in the 2019 Annual Report.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

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

Accounting policies applied to other significant transactions during the period

Senior notes

Unsecured senior debt of £300m was issued by the Society on 21 January 2020, increasing liabilities. The debt has been issued to finance the investment in the Future at Lloyd's. The debt consists of four tranches, each series has a different maturity profile ranging from 10 to 25 years. The Senior notes are accounted for as a financial liability, further details of the accounting treatment can be found in the 2019 Annual Report note 2(i) Financial liabilities. Interest payments are recognised as finance expenses in the Income Statement. Further details on Senior notes can be found in note 10(i).

Investment in Placing Platform Limited

The Society made a £6.6m investment in Placing Platform Limited (PPL) to continue to advance the implementation of digital trading in the Lloyd's market. It is accounted for as an investment in a joint venture using the equity method. The investment is recognised at cost. The carrying value is adjusted to reflect the Society's share of PPL profit or loss. Further details of the accounting treatment can be found in the 2019 Annual Report note 2(e) Investment in associates and joint ventures.

Syndicate loans

The 2020 tranche of syndicate loans to the Central Fund were issued on 26 June, increasing equity by £120m. The loan issue continues to strengthen the Society's central resources and facilitate the injection of capital to Lloyd's Insurance Company S.A. The loans are treated as equity as there is no contractual obligation to settle the loans and the Society may elect not to settle at its sole discretion (other than on liquidation). Further details on Syndicate loans can be found in note 9.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

3. Segmental analysis

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

Intra-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

The Society's primary business segments are as follows:

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

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

3. Segmental analysis *continued*

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

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

3. Segmental analysis *continued*

	Note	Six months ended 30 June 2019 Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Information by business segment				
Segment income				
Total income		192	125	317
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(329)	–	(329)
Insurance claims and expenses recoverable from reinsurers		329	–	329
Group operating expenses:		–	–	–
Employment (including pension costs)		(83)	–	(83)
Premises		(22)	–	(22)
Legal and professional		(21)	(1)	(22)
Systems and communications		(17)	–	(17)
Other		(17)	(1)	(18)
Total Group operating expenses		(160)	(2)	(162)
Total segment operating expenses		(160)	(2)	(162)
Total segment operating surplus		32	123	155
Finance costs	4	(5)	(21)	(26)
Finance income	4	8	140	148
Share of profits of associates and joint ventures		4	–	4
Segment surplus before tax		39	242	281
Tax charge	5			(53)
Surplus for the period				228
Segment assets and liabilities				
Insurance contract assets		1,090	–	1,090
Financial investments at fair value through profit and loss	8	147	2,613	2,760
Financial investments at amortised cost	8	997	201	1,198
Cash and cash equivalents		496	197	693
Other assets		993	325	1,318
Segment assets		3,723	3,336	7,059
Tax assets		41	–	41
Total assets		3,764	3,336	7,100
Insurance contract liabilities		(1,090)	–	(1,090)
Other segment liabilities		(2,401)	(835)	(3,236)
Tax liabilities		(43)	(11)	(54)
Total liabilities		(3,534)	(846)	(4,380)
Total equity		230	2,490	2,720

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

3. Segmental analysis *continued*

	Note	Full year 2019 (audited) Corporation of Lloyd's £m	Lloyd's Central Fund £m	Society total £m
Information by business segment				
Segment income				
Total income		358	125	483
Segment operating expenses				
Gross insurance claims and insurance expenses incurred		(1,302)	–	(1,302)
Insurance claims and expenses recoverable from reinsurers		1,302	–	1,302
Group operating expenses:				
Employment (including pension costs)		(173)	–	(173)
Premises		(99)	–	(99)
Legal and professional		(72)	(1)	(73)
Systems and communications		(39)	–	(39)
Other		(39)	1	(38)
Total Group operating expenses		(422)	–	(422)
Total segment operating expenses		(422)	–	(422)
Total segment operating (deficit)/surplus		(64)	125	61
Finance costs	4	(9)	(42)	(51)
Finance income	4	3	148	151
Share of profits of associates and joint ventures		9	–	9
Segment (deficit)/surplus before tax		(61)	231	170
Tax charge	5			(33)
Surplus for the year				137
Segment assets and liabilities				
Insurance contract assets	8	1,878	–	1,878
Financial investments at fair value through profit and loss	8	210	2,578	2,788
Financial investments at amortised cost		986	188	1,174
Cash and cash equivalents		439	94	533
Other assets		982	455	1,437
Segment assets		4,495	3,315	7,810
Tax assets		47	–	47
Total assets		4,542	3,315	7,857
Insurance contract liabilities		(1,878)	–	(1,878)
Other segment liabilities		(2,551)	(826)	(3,377)
Tax liabilities		5	(6)	(1)
Total liabilities		(4,424)	(832)	(5,256)
Total equity		118	2,483	2,601

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

3. Segmental analysis *continued*

Disaggregated revenue information

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

	Corporation of Lloyd's			Lloyd's Central Fund			Society Total		
	June 2020 £m	June 2019 £m	Dec 2019 £m	**June 2020 £m**	June 2019 £m	Dec 2019 £m	**June 2020 £m**	June 2019 £m	Dec 2019 £m
Type of service									
Members' subscriptions	**64**	65	125	**–**	–	–	**64**	65	125
Market charges and other services									
Market charges	**79**	101	190	**–**	–	–	**79**	101	190
Market modernisation levy	**9**	13	(4)	**–**	–	–	**9**	13	(4)
Reinsurance commission	**31**	9	37	**–**	–	–	**31**	9	37
Members' subscriptions rebate, net	**(1)**	(4)	(6)	**–**	–	–	**(1)**	(4)	(6)
Other charges	**8**	8	16	**–**	–	–	**8**	8	16
Central Fund income	**–**		–	**127**	125	125	**127**	125	125
Total revenue from contracts with customers	**190**	192	358	**127**	125	125	**317**	317	483
Geographical markets									
UK	**131**	154	237	**127**	125	125	**258**	279	362
Europe	**30**	7	34	**–**	–	–	**30**	7	34
China	**8**	9	22	**–**	–	–	**8**	9	22
Other	**21**	22	65	**–**	–	–	**21**	22	65
Total revenue from contracts with customers	**190**	192	358	**127**	125	125	**317**	317	483

The table below analyses insurance premiums by geographical segment:

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

	Six months ended June 2019 £m				
	UK	Europe	China	Other	Total
Gross written premiums	–	944	87	–	1,031
Outward reinsurance premiums	–	(944)	(87)	–	(1,031)
Net insurance premiums	–	–	–	–	–

	Full year 2019 (audited) £m				
	UK	Europe	China	Other	Total
Gross written premiums	–	2,309	157	–	2,466
Outward reinsurance premiums	–	(2,309)	(157)	–	(2,466)
Net insurance premiums	–	–	–	–	–

Note: Gross earned premiums for the period were £1,141m (30 June 2019: £353m, 31 December 2019: £1,333m). Earned premium net of reinsurance premiums were £nil (30 June 2019: £nil, 31 December 2019: £nil).

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

4. Finance

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
a) Finance costs			
Interest payable on financial liabilities measured at amortised cost	**(23)**	(19)	(38)
Lease liability interest	**(5)**	(5)	(8)
Amortisation of issue costs and discount	**–**	–	(1)
Other finance costs	**(2)**	(2)	(4)
Total finance costs	**(30)**	(26)	(51)
b) Finance income			
Bank interest received	**4**	7	12
Dividends received	**3**	3	7
Other returns on investments designated at fair value through profit or loss	**92**	140	134
Decrease in valuation of loans recoverable designated at fair value through profit or loss	**–**	(2)	(2)
Total finance income	**99**	148	151
Net finance income	**69**	122	100

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

5. Taxation

Tax charge	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Current tax:			
Corporation tax based on profits for the year at 19% (2019: 19%)	**(37)**	(54)	(35)
Adjustments in respect of previous years	**(2)**	–	–
Foreign tax suffered	**(1)**	(1)	(4)
Total current tax	**(40)**	(55)	(39)
Deferred tax:			
Origination and reversal of timing differences			
Current period	**(5)**	2	5
Prior year	**1**	–	1
Tax charge recognised in the Group income statement	**(44)**	(53)	(33)
Analysis of tax credit recognised in the Group statement of comprehensive income:			
Tax credit on actuarial loss on pension liabilities	**11**	7	10
Tax credit recognised in the Group statement of comprehensive income	**11**	7	10
Total tax charge	**(33)**	(46)	(23)

Reconciliation of effective tax rate	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Surplus on ordinary activities before tax	**218**	281	170
Corporation tax at 19% (2019: 19%)	**(41)**	(53)	(33)
Expenses not deductible for tax purposes	**–**	(1)	(2)
Overseas tax	**–**	1	–
Share of profit of associates and joint ventures	**1**	1	2
Deferred tax adjustment relating to change in tax rate	**(2)**	(1)	(1)
Deferred tax prior year adjustments	**–**	–	1
Current tax prior year adjustments	**(2)**	–	–
Tax charge	**(44)**	(53)	(33)

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

The deferred tax asset is based on a corporation tax rate of 19% (2019: 19%). The reduction of the UK corporation tax rate to 17% from 1 April 2020 announced in the 2016 Budget on 16 March 2016 and substantively enacted in September 2016 has not become effective. The corporation tax rate will remain at 19% for the financial years beginning 1 April 2020 and 1 April 2021 as announced in the Budget on 11 March 2020 and substantially enacted on 17 March 2020.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

6. Pension schemes

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

Defined benefit pension schemes

Pension scheme deficits	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Defined benefit schemes			
Lloyd's Pension Scheme	**(165)**	(130)	(137)
Overseas pension schemes	**(3)**	(3)	(3)
Total scheme deficits	**(168)**	(133)	(140)

The Lloyd's Pension Scheme

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

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

On an IAS 19 'Employee Benefits' valuation basis, the pension scheme deficit at 30 June 2020 was £165m (30 June 2019: deficit of £130m, 31 December 2019: deficit of £137m) before the allowance of deferred tax.

An actuarial pre-tax loss of £27m has been recognised in the six months ended 30 June 2020 (30 June 2019: £41m loss, 31 December 2018: £59m loss). The loss is mainly due to a reduction in the discount rate from 2.0% to 1.7% driven by a decrease in bond yields.

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

	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Actuarial value of scheme liabilities at 1 January	**997**	860	860
Interest cost on pension scheme liabilities	**10**	12	24
Benefits paid	**(14)**	(14)	(30)
Experience (gains)/losses arising in scheme liabilities	**(1)**	1	(1)
Change in assumptions underlying the present value of the scheme liabilities			
Demographic assumption change	**–**	–	31
Financial assumption change	**41**	101	113
Actuarial value of scheme liabilities at 30 June/31 December	**1,033**	960	997

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

6. Pension schemes *continued*

Changes in fair value of plan assets were:

	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Fair value of scheme assets at 1 January	**860**	773	773
Expected return on Pension Scheme assets	**9**	11	22
Employer contributions	**–**	–	11
Benefits paid	**(14)**	(14)	(30)
Actuarial gain on Scheme assets	**13**	60	84
Fair value of scheme assets at 30 June/31 December	**868**	830	860

The last completed formal actuarial valuation of the Scheme was carried out by Willis Towers Watson as at 30 June 2016 using the projected unit credit method. The total market value of the Scheme's assets at the date of the valuation was £667m and the total value of accrued liabilities was £730m, showing a funding deficit of £63m. These figures exclude both liabilities and the related assets in respect of money purchase Additional Voluntary Contributions. A formal valuation is being carried out as at 30 June 2019, but has not yet been completed.

Sensitivity of pension obligation to changes in assumptions

A 1% pa increase in the discount rate to be adopted as at 30 June 2020 would result in a reduction to the balance sheet liabilities at that date of around 16%, or approximately £165m. A corresponding 1% pa decrease would increase liabilities at that date by around 21%, or approximately £220m.

A 1% pa increase in the assumption for future inflation (both Retail Price Index and Consumer Price Index) as at 30 June 2020, which would increase future expectations of pension increases and deferred revaluation, would result in an increase in the balance sheet liabilities at that date of around 8%, or approximately £85m. A corresponding 1% pa decrease would reduce liabilities at that date by around 8%, or approximately £85m.

A change in the mortality assumptions could have a significant impact on the liabilities. For instance, if members aged 60 were instead expected to live for one year longer/shorter, with all members' life expectancies increasing/decreasing by a proportionate amount, then the liability as at 30 June 2020 would be around 3% higher/lower, or approximately £30m.

Overseas pension schemes

The Corporation also operates a number of defined benefit plans for qualifying employees based overseas. The total deficit of these pension schemes as at 30 June 2020 is £3m (30 June 2019: £3m, 31 December 2019: £3m).

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

7. Intangible assets and plant and equipment

i) Intangible assets

	Total £m
At 30 June 2019	17
Additions	6
At 31 December 2019	23
Additions	**29**
At 30 June 2020	**52**
Amortisation and impairment	
At 30 June 2019	(6)
Amortisation charge for the period	(1)
At 31 December 2019	(7)
Amortisation charge for the period	**(2)**
At 30 June 2020	**(9)**
Net book value at 30 June 2020	**43**
Net book value at 31 December 2019	16
Net book value at 30 June 2019	11

Intangible assets predominantly consist of software development.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

7. Intangible assets and plant and equipment *continued*

ii) Plant and equipment

	Furniture and fittings £m	Computer and specialised equipment £m	Total £m
Cost			
At 30 June 2019	37	22	59
Additions	3	3	6
Disposals	(3)	–	(3)
At 31 December 2019	37	25	62
Additions	**3**	**–**	**3**
Disposals	**(8)**	**(10)**	**(18)**
At 30 June 2020	**32**	**15**	**47**
Depreciation and impairment			
At 30 June 2019	(29)	(20)	(49)
Depreciation charge for the period	(1)	–	(1)
Disposals	1	–	1
At 31 December 2019	(29)	(20)	(49)
Depreciation charge for the period	**(2)**	**(1)**	**(3)**
Disposals	**8**	**10**	**18**
At 30 June 2020	**(23)**	**(11)**	**(34)**
Net book value at 30 June 2020	**9**	**4**	**13**
Net book value at 31 December 2019	8	5	13
Net book value at 30 June 2019	8	2	10

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

8. Financial investments

Financial investments	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Financial investments at amortised cost			
Statutory insurance deposits	**773**	675	696
Short term and security deposits	**516**	523	478
Total financial investments at amortised cost	**1,289**	1,198	1,174
Financial investments at fair value through profit and loss	**2,869**	2,760	2,788
Financial investments	**4,158**	3,958	3,962

(a) Financial investments at amortised cost

Statutory insurance deposits	Securities £m	Deposits £m	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Amortised cost at 1 January	**11**	**685**	**696**	629	629
Additions at cost	**5**	**639**	**644**	329	676
Disposal proceeds	**(4)**	**(616)**	**(620)**	(288)	(592)
Surplus/(deficit) on the sale and impact of changes in FX	**–**	**53**	**53**	5	(17)
Value at 30 June/31 December	**12**	**761**	**773**	675	696

Analysis of statutory insurance deposits	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
AAA	**1**	1	1
AA	**485**	391	414
A	**266**	263	261
BBB	**9**	8	8
Other	**12**	12	12
Total of statutory insurance deposits	**773**	675	696

Analysis of short term and security deposits	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
AAA	**49**	12	11
AA	**169**	140	146
A	**253**	256	209
BBB	**45**	115	108
Other	**–**	–	4
Total of short-term and security deposits	**516**	523	478

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

8. Financial investments *continued*

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

	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Fair value at 1 January	210	2,578	2,788	2,486	2,486
Additions at cost	146	643	789	750	1,434
Disposal proceeds	(66)	(708)	(774)	(599)	(1,242)
Surplus on the sale and impact of changes in FX rates	13	53	66	123	110
Fair value at 30 June/31 December	**303**	**2,566**	**2,869**	2,760	2,788
Analysis of securities:					
Listed securities					
Fixed interest:					
Government	155	819	974	952	972
Corporate securities	148	654	802	719	731
Total Fixed interest	303	1,473	1,776	1,671	1,703
Emerging markets	–	152	152	109	159
Global equities	–	380	380	424	367
Fixed income absolute return fund	–	100	100	101	105
Total listed securities	**303**	**2,105**	**2,408**	2,305	2,334
Unlisted securities					
Hedge funds	–	156	156	167	165
Multi-asset	–	305	305	288	289
Total unlisted securities	**–**	**461**	**461**	455	454
Fair value	**303**	**2,566**	**2,869**	2,760	2,788

Analysis of securities:	2020 Corporation of Lloyd's £m	2020 Lloyd's Central Fund £m	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
AAA	130	317	447	357	305
AA	68	546	614	673	686
A	44	418	462	488	450
BBB	12	323	335	239	403
Other	49	962	1,011	1,003	944
Total securities	**303**	**2,566**	**2,869**	2,760	2,788

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

8. Financial investments *continued*

(c) Fair value hierarchy

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

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

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

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

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

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

8. Financial instruments *continued*

(c) Fair value hierarchy *continued*

			30 June 2019
	Level 1 £m	Level 2 £m	Total £m
Financial assets at fair value through profit or loss			
Listed securities	946	725	1,671
Equity investments	372	161	533
Fixed income absolute return fund	–	101	101
Unlisted securities	–	455	455
Derivative financial instruments			
Currency conversion service	–	5	5
Other forward foreign exchange contracts	–	1	1
Interest rate swaps	–	1	1
Equity Futures	–	–	–
Total derivative financial instruments	–	7	7
Total financial assets at fair value through profit or loss	1,318	1,449	2,767
Financial liabilities at fair value through profit or loss			
Derivative financial instruments			
Currency conversion service	–	(3)	(3)
Other forward foreign exchange contracts	–	(8)	(8)
Interest rate swaps	–	(4)	(4)
Equity Futures	–	–	–
Total derivative financial instruments	–	(15)	(15)
Total financial liabilities at fair value through profit or loss	–	(15)	(15)

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

8. Financial instruments *continued*

(c) Fair value hierarchy *continued*

	31 December 2019 (audited) Level 1 £m	Level 2 £m	Total £m
Financial assets at fair value through profit or loss			
Listed securities	972	731	1,703
Equity investments	367	159	526
Fixed income absolute return fund	–	105	105
Unlisted securities	–	454	454
Total	1,339	1,449	2,788
Derivative financial instruments			
Currency conversion service	–	2	2
Other forward foreign exchange contracts	–	22	22
Interest rate swaps	–	1	1
Equity Futures	–	–	–
Total derivative financial instruments	–	25	25
Total financial assets at fair value through profit or loss	1,339	1,474	2,813
Financial liabilities at fair value through profit or loss			
Derivative financial instruments			
Currency conversion service	–	(2)	(2)
Other forward foreign exchange contracts	–	(3)	(3)
Interest rate swaps	–	(5)	(5)
Equity Futures	–	(3)	(3)
Total derivative financial instruments	–	(13)	(13)
Total financial liabilities at fair value through profit or loss	–	(13)	(13)

Unlisted securities

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

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

9. Syndicate loans

	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
2020 Syndicate loans	**120**	–	–
2019 Syndicate loans	**110**	110	110
Principal loan balance and Syndicate loans	**230**	110	110

Syndicate loans may be repaid in full or in part, at the discretion of the Society, only after a period of five years has elapsed. The dividend interest rate on the loans is based on a risk-free rate with an allowance for credit spread. The Council may elect to defer or cancel payment of all or any dividend. A dividend is only recognised once the holders' right to receive payment is confirmed. At 30 June 2020 the cumulative dividend to date, not yet confirmed, totals £2m (30 June 2019: £1m, 31 December 2019: £3m). A dividend of £4m has been paid to syndicates in respect of the 2019 tranche. The dividend was approved by Council on 24 March 2020.

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

10. Senior and subordinated debt

i) Senior notes

	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Details of loans payable wholly or partly after more than five years:			
2.48% senior debt of £60m maturing Jan 2030 (Sterling 2020)	**60**	–	–
2.48% senior debt of £40m maturing Jan 2031 (Sterling 2020)	**40**	–	–
2.61% senior debt of £70m maturing Jan 2035 (Sterling 2020)	**70**	–	–
2.81% senior debt of £130m maturing Jan 2045 (Sterling 2020)	**130**	–	–
Less issue costs and discount on issue to be charged/unwound in future years	**(1)**	–	–
Total	**299**	–	–

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

ii) Subordinated notes

	30 June 2020 £m	30 June 2019 £m	31 December 2019 (audited) £m
Details of loans payable wholly or partly after more than five years:			
4.875% subordinated notes of £300m maturing 7 February 2047 (Sterling 2017 Notes)	**300**	300	300
4.750% subordinated notes of £500m maturing 30 October 2024 (Sterling 2014 Notes)	**500**	500	500
	800	800	800
Less issue costs to be charged in future years	**(3)**	(4)	(4)
Less discount on issue to be unwound in future years	**(2)**	(2)	(2)
Total	**795**	794	794

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

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

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

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

11. Cash generated from operations

	Note	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m	Full year 2019 (audited) £m
Surplus before tax		**218**	281	170
Net finance income	4	**(69)**	(122)	(100)
Share of profits of associates and joint ventures		**(5)**	(4)	(9)
Operating surplus		**144**	155	61
Adjustments for:				
Amortisation of intangible assets	7(i)	**2**	1	2
Depreciation of plant and equipment	7(ii)	**3**	3	4
Depreciation of right-of-use asset		**10**	11	23
Operating surplus before working capital changes and claims paid		**159**	170	90
Changes in pension obligations		**1**	1	(9)
Increase in receivables		**(418)**	(1,570)	(2,584)
Increase in payables		**445**	1,627	2,588
(Decrease)/increase in provisions other than for Central Fund Claims		**(6)**	4	60
Cash generated from operations		**181**	232	145

Notes to the Group Interim Financial Statements *continued*

(As at 30 June 2020)

12. Impact of COVID-19

The Society's financial risks are largely unchanged from the 2019 Annual Report, (page 109, Financial Review). When considering the impact of COVID-19, the Corporation continues to monitor and respond to the changing risk environment. The key areas of focus are:

Market risk

In response to the impact of COVID-19 on the financial markets, the Society has embarked on a de-risking plan for the Central Fund investment portfolio to mitigate the impact of market volatility and to lower market risk. Information on the performance of the Society's investment portfolio for the period is provided in the Financial Review on page 25. The valuation of the Lloyd's Pension Scheme requires significant judgement and is significantly impacted by short-term market movements. In particular, the reduction in market bond yields during the period has led to an increase in the actuarial value of Scheme liabilities at 30 June 2020. Further details, including sensitivity analysis, are included in note 6.

Credit risk

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

Liquidity risk

The Society continues to monitor its liquidity requirements to hold enough liquidity assets to meet liabilities as they fall due. Obligations include interest payments on the senior and subordinated debt, lease payments on the 1986 building and other properties under lease and repair and maintenance costs of the 1986 building, which have been provided for. The Society has a strong free cash balance at 30 June 2020 of £343m (31 December 2019: £289m), with additional holdings in short-term investments, making the Society's liquidity very strong. In January, the Society successfully issued £300m of senior debt to finance the investment in the Future at Lloyd's, and in June, £120m of Syndicate loans was raised, further strengthening the Society's central resources. Further details are included in note 2. As a result, and in part due to the initial de-risking of the Central Fund investment portfolio, the Society's cash and cash equivalents have increased to £1,115m (31 December 2019: £533m).

Foreign exchange risk

The Society's strategy remains unchanged from the 2019 Annual Report, with close monitoring of the Society's exposure to foreign currency transactions, along with the use of forward foreign exchange contracts to mitigate a portion of the investment exposure governed by Lloyd's risk appetite. As a result of this strategy, the Society has a significant US Dollar exposure. As Sterling weakened against US Dollar, the Society recorded gains on foreign exchange of £127m, boosting the investment return for the period. Further details are provided in the Financial Review on page 25.

Interest rate risk

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

Independent Review Report to the Council of Lloyd's

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

Our conclusion

We have reviewed Society of Lloyd's condensed interim financial statements (the "interim financial statements") for the six-month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

What we have reviewed

The interim financial statements comprise:

- the Group statement of financial position as at 30 June 2020;
- the Group statement and Group statement of comprehensive income for the period then ended;
- the Group statement of cash flows for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Council of Lloyd's

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
9 September 2020

Alternative Performance Measures (APMs)

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

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

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