LLOYD'S

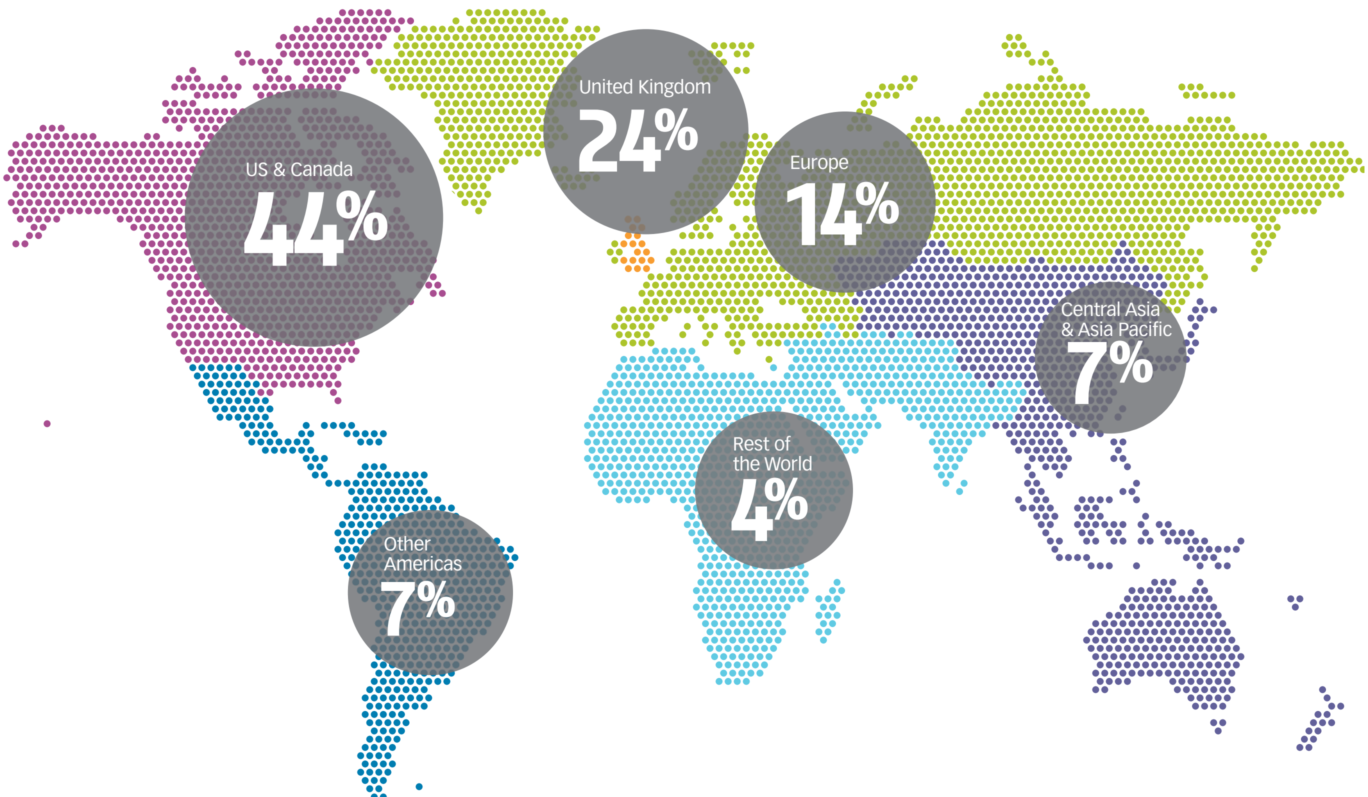
INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2008

OUR BUSINESS

Lloyd's is licensed to underwrite business in over 70 territories and can accept risks proposed from over 200 countries and territories in accordance with local laws and regulation. Lloyd's licences offer broad access to major direct and reinsurance markets worldwide.

A full list of countries covered by Lloyd's licences is available at:
www.lloyds.com/worldwide

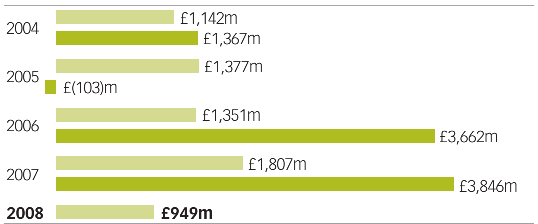


Percentage figures as at
31 December 2007

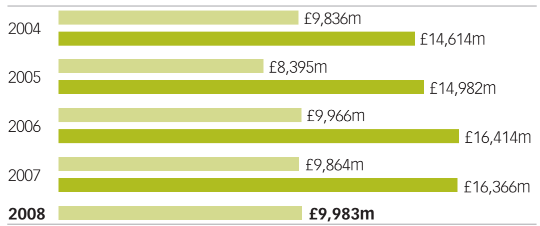
CONTENTS

HIGHLIGHTS

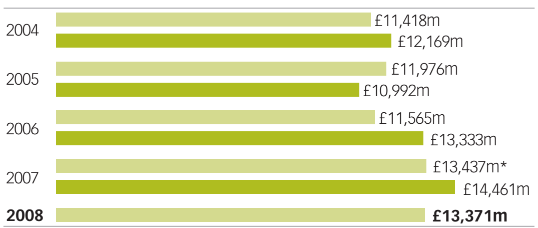
Profit before tax **£949m**



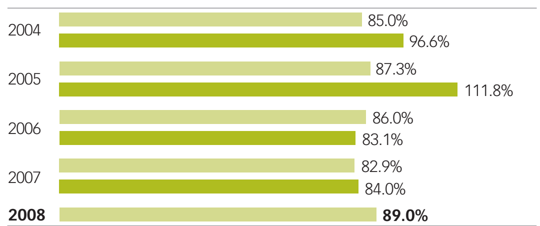
Gross premiums written **£9,983m**



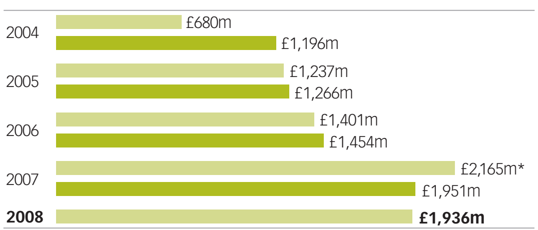
Capital reserves and subordinated loan notes **£13,371m**



Combined ratio **89.0%**

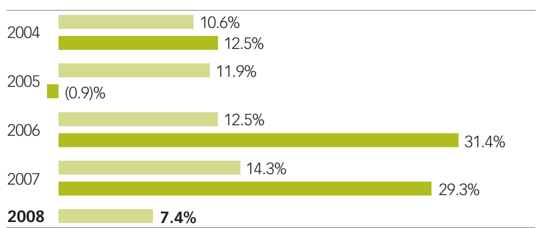


Central assets **£1,936m**



Half year
Full year

Return on capital **7.4%**

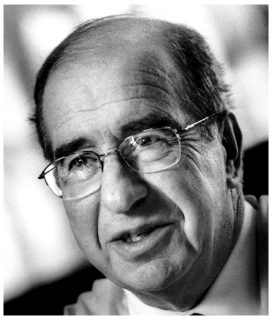


Half year
Full year

*June 2007 central assets and capital reserves and subordinated loan notes included £332m of syndicate loans that were repaid to the syndicates in July 2007.

- → Lloyd's achieved a profit before tax of £949m (June 2007: £1,807m) and a combined ratio of 89.0% (June 2007: 82.9%)
- → Lloyd's financial strength ratings affirmed by A.M Best 'A' (Excellent), Standard & Poor's 'A+' (Strong) and Fitch Ratings 'A+' (Strong)
- → Solid financial position with strongest ever Central Fund
- → Announced as the first admitted reinsurer in Brazil

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT



The Lloyd's market achieved a half year profit before tax of £949m (June 2007: £1,807m). The reduction from last year came as no surprise as a softening in rates from their peak was inevitable and the very low levels of claims could not continue.

Our combined ratio of 89.0% (June 2007: 82.9%) once again compares well with our peers but the increase is indicative of the significant challenges faced with weaker prices and easing of terms and conditions across almost all lines of business.

Reductions in the volume of business written by a significant number of established syndicates was a welcome sign of underwriting discipline. Revenues were boosted by new business brought into the market by recent entrants.

Investment income was impacted by the extreme volatility in the capital markets with both equity and bond holdings adversely affected. The market's conservative investment mix enabled it to report a positive return of 0.9%, outperforming many of its peers.

CONTINUING TO BUILD STRENGTH AND RESILIENCE

Our efforts continue to be focused on underwriting for profit through our business planning process and the collection of more in-depth and better quality data which helps us ensure that those business plans are then delivered.

We remain in a solid financial position with the strongest ever Central Fund and contribution rates reduced to 0.5%, the lowest cost of mutuality in over a decade.

These are developments that have not gone unnoticed. All three rating agencies – S&P, A.M. Best and Fitch – have reaffirmed our ratings this year, referencing the improved preparedness and financial strength of the market.

Progress has been made against the goals set out in our Three-Year Plan. Over 90% of claims and premiums are now being processed electronically and a project is underway to streamline data capture and management. We also became the first insurer to gain an admitted reinsurance licence in Brazil.

As a global marketplace we have a responsibility to our policyholders to be financially secure in order to pay their claims and be robust in our drive to improve the level of service we provide. We seek to ensure that our governance procedures are in line with best practice as evidenced in a Legislative Reform Order that has been overwhelmingly endorsed by the Lloyd's membership.

The market remains in a good position to face the challenges ahead but we are all acutely aware that the external conditions in which we operate are about to test our operating structure and our resolve. While we always stress that our full year result remains susceptible to catastrophe activity in the second half, this year it is true to say that it will also be heavily influenced by the ongoing volatility in financial markets.

PETER LEVENE
Chairman

RICHARD WARD
Chief Executive Officer

24 September 2008

MARKET COMMENTARY

The underwriting result for the first six months of 2008 is a profit of £699m (June 2007: £1,096m), down 36% due mainly to accelerating claims costs together with a modest increase in the level of expenses.

Gross written premiums for the six months to June 2008 were £9,983m (June 2007: £9,864m) an increase of 1.2%. The gross written premiums of established syndicates have fallen 4.3% over the period in reaction to the fall in rates that is being seen across almost all business lines. This has however been offset by new syndicates entering the market. Movements in foreign exchange rates have had little impact in the first half of the year.

The Lloyd's market recorded an accident year combined ratio for the six months to June 2008 of 95.4% (June 2007: 89.2%), offset by a prior year reserve release of 6.4% (June 2007: 6.3%) to give an overall combined ratio of 89.0% (June 2007: 82.9%).

The driver of the accident year ratio increase comes from a number of sources. Claims frequency is rising, particularly in the property, casualty and energy lines, fuelled in part by the rapidly deteriorating economic conditions and political instability in various regions around the globe. This increase in frequency is coupled with heavy claims inflation, fuelled by the escalating cost of raw materials.

In addition, the record levels of capital across the insurance industry means there is significant over-capacity in most classes. Terms and conditions are under increasing pressure and rates are either falling or are already at soft levels following many years of steady decline. Profitability in many lines is now questionable with current pricing levels leaving little margin to cover major catastrophe losses.

We are publishing these interim figures at the height of the North Atlantic windstorm season. Hurricane Gustav and Hurricane Ike made landfalls in the US as strong hurricanes causing significant, widespread damage. Whilst it is too early to assess the final economic cost of these storms, undoubtedly it will add pressure to underwriting earnings.

INVESTMENT REVIEW

The total investment return for the six months to June 2008 was £346m or 0.9% (June 2007: £846m, 2.4%). Whilst down significantly year on year the delivery of a positive return was nonetheless a good performance given the turmoil evident throughout global markets and compares favourably against many of our peers over the same period.

Generally, the market's assets are conservatively invested with a large proportion in government securities and other securities of high credit quality. Equities, at around 5% of the total assets are significantly below industry averages and the market is not generally involved in the kinds of insurance related derivative activities that have given rise to significant earnings volatility elsewhere. This is true across all of the market's assets be they syndicate funds – essentially the day to day working capital, Funds at Lloyd's – the members capital, or the Central Fund – the mutual assets that underpin the operation of the market.

Over the period growing inflation concerns led to rising yields and sharp falls in stock markets. In turn this helped to fuel corporate credit fears across all sectors and, as credit spreads continued to widen, this depressed bond prices further.

Amidst these conditions the market still made a positive return, assisted not only by the high quality of the asset portfolio but also by the relatively short duration of many of the assets, thereby limiting the impact of yield movements.

It is far from clear what the second half of 2008 has in store. Since the period end we have seen several potential failures of major financial institutions most of which have been averted through the repeated intervention of governments and central banks. Initially a better start to the third quarter had seen stronger returns from bond markets generally, although equity markets remained weak. These developments reflect a change in emphasis between investors' views of inflation, which is increasingly expected to moderate over the next 12 months, and economic growth, where risks of recession are seen to be increasing. Overall, recent developments may be positive for Lloyd's investment returns in the remainder of the year, although, at best, overall returns are likely to be modest by comparison with recent years and continuing market volatility makes it impossible to predict the outcome.

LLOYD'S INTERIM REPORT

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

INTERIM PRO FORMA FINANCIAL STATEMENTS (PFFS)

The PFFS are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared with general insurance companies. The PFFS include the interim results of the syndicates as reported in the syndicate interim returns, members' funds at Lloyd's (FAL) and the Society of Lloyd's group interim financial statements (as below).

The syndicate interim returns provide the results for all syndicates which transacted business during the six months to 30 June 2008 and include the syndicate level assets, which represent the first link in the Lloyd's chain of security.

The capital provided by members is held centrally as FAL, not at syndicate level, and is not, therefore, reported in the syndicate interim returns. FAL represent the second link in the chain of security. The non-technical account of the PFFS includes a notional return on FAL.

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

The profit and loss account in the PFFS aggregates the syndicate results, the notional investment return on members' capital and the results of the Society. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL, and the central resources of the Society. Overall, the PFFS aggregate the results and resources of the Society and its members and reflect all the links in the Lloyd's chain of security. The PFFS may, therefore, be used as a reasonable presentation of the pre-tax results and state of affairs of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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

PRO FORMA PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2008

	Six months ended 30 June 2008		Six months ended 30 June 2007		Full year 2007	
Technical account	**£m**	**£m**	£m	£m	£m	£m
Gross premiums written						
– continuing operations		**9,965**		9,861		16,349
– discontinued operations		**18**		3		17
		9,983		9,864		16,366
Outward reinsurance premiums		**(2,595)**		(2,417)		(3,110)
Premiums written, net of reinsurance		**7,388**		7,447		13,256
Change in the gross provision for unearned premiums	**(2,008)**		(2,002)		(237)	
Change in provision for unearned premiums, reinsurers' share	**982**		979		78	
		(1,026)		(1,023)		(159)
Earned premiums, net of reinsurance		**6,362**		6,424		13,097
Allocated investment return transferred from the non-technical account		**309**		480		1,223
		6,671		6,904		14,320
Claims paid						
Gross amount	**4,062**		4,467		8,741	
Reinsurers' share	**(884)**		(1,417)		(2,515)	
		3,178		3,050		6,226
Change in provision for claims						
Gross amount	**258**		(838)		(1,278)	
Reinsurers' share	**(29)**		1,006		1,599	
		229		168		321
Claims incurred, net of reinsurance		**3,407**		3,218		6,547
Acquisition costs	**2,098**		1,998		3,519	
Change in deferred acquisition costs	**(383)**		(355)		(70)	
Administrative expenses	**577**		487		1,117	
(Profit) on exchange	**(36)**		(20)		(115)	
Net operating expenses		**2,256**		2,110		4,451
Balance on the technical account for general business		**1,008**		1,576		3,322
Attributable to: continuing operations		**960**		1,531		3,290
discontinued operations		**48**		45		32
Total		**1,008**		1,576		3,322
Non-technical account						
Balance on the technical account for general business		**1,008**		1,576		3,322
Syndicate investment return	**302**		480		1,226	
Notional investment return on funds at Lloyd's	**64**		350		653	
Investment return on Society assets	**(20)**		16		128	
	346		846		2,007	
Allocated investment return transferred to the technical account	**(309)**		(480)		(1,223)	
		37		366		784
Other income		**43**		30		89
Contribution to Equitas-Berkshire Hathaway transaction		**–**		(90)		(90)
Other expenses		**(139)**		(75)		(259)
Profit on ordinary activities before tax		**949**		1,807		3,846
Statement of total recognised gains and losses						
Result for the financial period		**949**		1,807		3,846
Other recognised gains and losses		**(14)**		10		106
Total recognised gains and losses		**935**		1,817		3,952

PRO FORMA BALANCE SHEET

as at 30 June 2008

	30 June 2008		30 June 2007		31 December 2007	
	£m	£m	£m	£m	£m	£m
Financial investments						
Shares and other variable yield securities	3,051		3,493		3,075	
Debt securities and other fixed income securities	19,716		18,471		20,811	
Participation in investment pools	1,161		702		1,180	
Loans and deposits with credit institutions	4,297		4,417		4,414	
Other investments	12		9		4	
Total investments		28,237		27,092		29,484
Deposits with ceding undertakings		9		9		9
Reinsurers' share of technical provisions						
Claims outstanding	7,495		8,020		7,449	
Unearned premiums	1,822		1,739		841	
		9,317		9,759		8,290
Debtors						
Debtors arising out of direct operations	4,432		4,238		3,428	
Debtors arising out of reinsurance operations	3,543		3,829		2,918	
Other debtors	331		425		318	
		8,306		8,492		6,664
Other assets						
Tangible assets	27		22		26	
Cash at bank and in hand	7,875		8,061		7,497	
Other	9		11		28	
		7,911		8,094		7,551
Prepayments and accrued income						
Accrued interest and rent	88		105		144	
Deferred acquisition costs	2,045		1,944		1,656	
Other prepayments and accrued income	263		215		155	
		2,396		2,264		1,955
Total assets		56,176		55,710		53,953
Capital and reserves						
Members' funds at Lloyd's	9,593		10,797		9,858	
Members' balances	1,842		475		2,652	
Members' assets (held severally)	11,435		11,272		12,510	
Central reserves (mutual assets)	907		1,172		939	
		12,342		12,444		13,449
Subordinated debt		533		498		516
Subordinated perpetual capital securities		496		495		496
Capital, reserves and subordinated debt and securities		13,371		13,437		14,461
Technical provisions						
Provision for unearned premiums	9,316		8,973		7,282	
Claims outstanding	29,357		29,085		28,971	
		38,673		38,058		36,253
Deposits received from reinsurers		161		33		42
Creditors						
Creditors arising out of direct insurance operations	791		780		697	
Creditors arising out of reinsurance operations	2,271		2,456		1,534	
Other creditors including taxation	695		759		774	
		3,757		3,995		3,005
Accruals and deferred income		214		187		192
Total liabilities		56,176		55,710		53,953

PRO FORMA CASH FLOW STATEMENT

for the six months ended 30 June 2008

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m	Full year 2007 £m
Pro forma result for the period/year before tax	**949**	1,807	3,846
Depreciation	**1**	1	3
Realised and unrealised investment (gains)/losses and foreign exchange	**446**	245	(157)
Net sale/(purchase) of investments	**925**	272	(1,576)
Notional return on funds at Lloyd's	**(64)**	(350)	(653)
Increase in technical provisions	**1,357**	923	585
(Increase)/decrease in debtors	**(2,156)**	(1,848)	243
Increase/(decrease) in creditors	**902**	892	(15)
Cash generated from operations	**2,360**	1,942	2,276
Income taxes paid	**(40)**	–	(20)
Net cash from operating activities	**2,320**	1,942	2,256
Cash flows from financing activities			
Net profits paid to members	**(2,003)**	(1,314)	(1,537)
Net movement in funds at Lloyd's	**(265)**	(485)	(1,424)
Capital transferred into syndicate premium trust funds	**361**	–	322
Interest paid	**(35)**	(8)	(46)
Net increase/(decrease) in cash holdings	**378**	135	(429)
Cash holdings at beginning of period	**7,497**	7,926	7,926
Cash holdings at 30 June/31 December	**7,875**	8,061	7,497

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS

as at 30 June 2008

1. INTRODUCTION

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

2. BASIS OF PREPARATION

GENERAL

The PFFS include the aggregate results as reported separately by all syndicates in returns to Lloyd's, members' funds at Lloyd's (FAL) and the Society in accordance with UK GAAP. The syndicate returns include the syndicate level assets, which represent the first link in the chain of security.

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

The capital provided by members is held centrally as FAL, not at syndicate level, and is not, therefore, reported in the syndicate returns. FAL represent the second link in the chain of security. The non-technical account of the PFFS includes a notional investment return on FAL.

The Society of Lloyd's group interim financial statements report the central resources of the Society, which forms the third link in Lloyd's chain of security (pages 12 to 23).

The profit and loss account in the PFFS, therefore, draws together the syndicate underwriting results, the notional investment return on members' capital and the results of the Society. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL and the central resources of the Society. Overall, therefore, the PFFS aggregate the results and resources of the Society and its members and reflects all the links in Lloyd's chain of security. The PFFS may, therefore, be used as a reasonable presentation of the results and resources of Lloyd's on a basis that is broadly comparable with general insurance companies.

TAXATION

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

FUNDS AT LLOYD'S

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

A notional investment return on FAL has been calculated, which is the equivalent of insurance companies generating investment return on the capital that they hold to support their underwriting. The notional investment return is calculated on the average value of FAL during the period, based on indices yields on each type of asset held. The typical investment return on bank deposits has been applied to FAL provided as letters of credit or bank guarantees.

SOCIETY OF LLOYD'S GROUP INTERIM FINANCIAL STATEMENTS

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

TRANSACTIONS BETWEEN SYNDICATES AND THE SOCIETY

(1) 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's group interim financial statements.

(2) Central Fund claims and provisions to discharge the liability of members where they have unpaid cash calls and do not have resources to meet those calls are reported as a profit and loss charge and balance sheet liability in the Society of Lloyd's group interim financial statements. The Central Fund other income includes recoveries from insolvent members. The syndicate returns include those members' results and balances.

(3) Syndicate loans to the Central Fund (and annual interest payments on the loans) are reported as assets (and accrued income) within the syndicate returns. The Society of Lloyd's group interim financial statements report the loans as equity and account for interest payable when the Council formally approves interest payments.

(4) Loans funding statutory overseas deposits are reported as assets within the syndicate returns and as liabilities in the Society of Lloyd's group interim financial statements.

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

THE SUBORDINATED DEBT AND SECURITIES

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

3. ACCOUNTING POLICIES NOTES

A. SYNDICATE RETURNS

The syndicate level information within the PFFS has been prepared in accordance with UK GAAP. These accounting policies are consistent with those adopted for the PFFS in the 2007 Annual Report. These policies, as regards underwriting transactions, are consistent with the recommendations of the Statements of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers, modified to reflect the unique structure of Lloyd's.

B. FUNDS AT LLOYD'S

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

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at their bid price market value, and deposits with credit institutions and overseas deposits are stated at cost.

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

These policies are consistent with those adopted in the 2007 Annual Report.

C. SOCIETY OF LLOYD'S

The accounting policies used in the preparation of the PFFS are in accordance with UK GAAP and are consistent with those adopted in the 2007 Annual Report.

4. VARIABILITY

Movements in reserves are based upon best estimates as at 30 June 2008 taking into account all available information. These estimates are subject to variability until the date at which the underlying claims are settled. Such changes in best estimates are reflected in the technical account of the period in which they occur.

5. DISCONTINUED OPERATIONS

Continuing/discontinued operations represent the analysis reported in the syndicate returns between business that they are continuing to underwrite and business that they have ceased to underwrite. It is quite possible, however, that business discontinued by one syndicate continues to be written at Lloyd's by one or more other syndicates. Where business has been reported as discontinued in 2008, the results for that business have also been reported as discontinued in the 2007 comparative figures.

6. MEMBERS' FUNDS AT LLOYD'S

The valuation of members' funds at Lloyd's (FAL) in the balance sheet totals £9,593m (June 2007: £10,797m, December 2007: £9,858m). The notional investment return on FAL included in the non-technical profit and loss account totals £64m (June 2007: £350m, December 2007: £653m).

7. SOCIETY OF LLOYD'S

The results of the group interim financial statements of the Society included in the profit and loss account are a net profit of £130m (June 2007: £230m, December 2007: £296m) in the technical account and a net loss of £116m (June 2007: £119m, December 2007: £132m) in the non-technical account.

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS CONTINUED

8. AGGREGATION OF RESULTS AND NET ASSETS

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

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m	Full year 2007 £m
Result per syndicate returns	**871**	1,346	3,029
Result of Society	**(2)**	75	164
Central Fund claims and provisions in Society financial statements	**17**	10	(18)
Central Fund recoveries from insolvent members	**(1)**	(3)	(48)
Taxation (credit)/charge in Society accounts	**–**	31	66
Interest receivable on syndicate loans to Central Fund accrued in syndicate returns	**–**	(2)	–
Notional investment return on members' funds at Lloyd's	**64**	350	653
Result on ordinary activities pre-tax	**949**	1,807	3,846

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m	Full year 2007 £m
Result for the period	**949**	1,807	3,846
Other recognised gains and losses per syndicate returns	**16**	(14)	69
Other recognised gains and losses per Society financial statements	**(30)**	24	37
Total recognised gains and losses	**935**	1,817	3,952

	30 June 2008 £m	30 June 2007 £m	Full year 2007 £m
Net assets per syndicate returns	**1,699**	640	2,523
'Equity' of the Society	**907**	1,172	939
Central Fund claims and provisions in Society group financial statements	**143**	170	129
Members' funds at Lloyd's	**9,593**	10,797	9,858
Syndicate loans to Central Fund in syndicate returns	**–**	(333)	–
Interest receivable on syndicate loans to Central Fund accrued in syndicate returns	**–**	(2)	–
Capital and reserves per PFFS	**12,342**	12,444	13,449

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

9. CASH AT BANK AND IN HAND

Cash at bank and in hand includes letters of credit and bank guarantees held in trust within members' funds at Lloyd's to meet policyholder claims as required totalling £5,601m (June 2007: £5,730m, Dec 2007: £5,399m).

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE INTERIM PRO FORMA FINANCIAL STATEMENTS

INTRODUCTION

In accordance with instructions issued to us by the Council of Lloyd's, we have reviewed the interim pro forma financial statements (the PFFS) for the six months ended 30 June 2008, which comprise the pro forma profit and loss account, the pro forma statement of total recognised gains and losses, the pro forma balance sheet and the pro forma cash flow statement and the related notes 1 to 9, which have been prepared on the basis set out in note 2.

This report is made solely to the Council of Lloyd's in accordance with those instructions. Our review has been undertaken so that we might state to the Council those matters which we are required to state in this review report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressee of this review report, for our work, for this review report, or for the conclusions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL OF LLOYD'S AND ERNST & YOUNG LLP

The Council of Lloyd's is responsible for the preparation and approval of the PFFS. Our responsibility is to express a conclusion on this interim pro forma financial information based upon our review.

SCOPE OF REVIEW

Our review, which has been carried out in accordance with International Standard on Assurance Engagements, ISAE 3000, 'Assurance Engagements other than audits or reviews of Historical Financial Information', consisted principally of making enquiries of the Council of Lloyd's and applying analytical procedures to the financial information and underlying financial data. It excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as included in the PFFS. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that may be identified in an audit. Accordingly, we do not express an audit opinion.

The PFFS have been compiled in part from an aggregation of financial information extracted from syndicate returns prepared by the managing agent of each syndicate. These returns have been submitted to the Council of Lloyd's and the auditors of each syndicate have given a review opinion, as described in note 2. Those auditors' review reports are also substantially less in scope than an audit performed in accordance with International Auditing Standards and indicate that they are not aware of any material modifications that should be made to the financial information reported in the syndicate returns. We have relied absolutely on those reports by syndicate auditors. We have not audited those returns or those extractions. Our work is solely intended to enable us to make this report.

CONCLUSION

On the basis of the review, and in accordance with the instructions issued to us, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2008.

ERNST & YOUNG LLP
More London Place
London

24 September 2008

Society of Lloyd's group interim financial statements

SOCIETY OF LLOYD'S FINANCIAL REVIEW

Set out below are extracts from the Society of Lloyd's Group Interim Financial Statements for the six months ended 30 June 2008. A full copy can be found at www.lloyds.com/Lloyds_Market/Financial_performance/Financial_results/Society_of_Lloyds_interim_results_2008.

FINANCIAL REVIEW

OPERATING SURPLUS

The Society of Lloyd's achieved an operating surplus of £71m (June 2007: £106m), a decrease of 33.0%.

TOTAL INCOME

Total income for the six month period was £205m (June 2007: £288m), a decrease of 28.8%. This was driven by the reduction in Central Fund contributions from 1.0% to 0.5%, possible due to the very strong capitalisation of the Central Fund. Additionally, there has been a change in the basis of charging New Central Fund contributions and members' subscriptions from capacity to written premiums.

On 27 February 2008, Centrewrite entered into a contract to reinsure the members of Syndicate 535 for outstanding claims liabilities in respect of the 1999, 2000 and 2001 years of account as at 31 December 2007. As a result general insurance net premium income has increased significantly period on period.

OPERATING EXPENSES

Operating expenses for the six month period were £134m (June 2007: £183m), a decrease of 26.8%. The 2007 figure included £90m in respect of the Society's contribution to the Equitas-Berkshire Hathaway transaction while the 2008 figure includes insurance claims incurred of £33m as a result of the reinsurance of the members of Syndicate 535.

The level of Central Fund claims and provisions has remained relatively low at £16m (June 2007: £10m), reflecting the continued favourable development on the run off of insolvent members supported by Central Fund undertakings.

Other operating expenses in total are materially unchanged at £84m (June 2007: £82m). We remain focused on delivering our objectives while maintaining cost discipline.

INVESTMENT INCOME

The Society's investment return for the six month period was a loss of £20m, or (0.9)% (June 2007: a profit of £16m, 0.8%). Furthermore, deducting interest costs and foreign exchange rate movements on the £1bn of subordinated debt in issue increases this loss to £74m (June 2007: a loss of £1m). While significant, this remains consistent with predicted risk levels and is within the investment risk budget allocated to these assets.

Of the Central Fund assets, approximately half are invested to meet the subordinated debt liabilities. Under IFRS, the assets are fair valued while the liabilities they are hedging are not. Consequently, for accounting purposes, significant income statement volatility can arise whilst economically there is neither gain nor loss. In the first half of 2008, if the liabilities had been included at their market value, the overall investment return would have been improved by £88m.

Elsewhere within the portfolio, falling equity prices and rising yields have generated a loss for the period, although at a lower level than would have been experienced but for recent changes in asset disposition of the Central Fund – seeking greater diversity across asset classes and geographies.

RESULTS SUMMARY

Overall, the deficit after tax for the six months to June was £2m (June 2007: a surplus of £75m). The net assets of the Society of Lloyd's (the 'Society') decreased by £32m in the six months to June 2008 to £907m.

CONCLUSION

While risks to financial markets have undoubtedly increased, our overall capital position remains strong, with the Central Fund comfortably in excess of our immediate regulatory and rating requirement and we are well positioned as we enter a period of considerable uncertainty and, with it, the potential for significant volatility. We continue to work with the market to deliver the Three-Year Plan.

GROUP INCOME STATEMENT

for the six months ended 30 June 2008

	Note	**Six months ended 30 June 2008 £000**	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Operating income		**84,832**	87,203	177,853
Central Fund contributions		**82,278**	166,001	168,346
General insurance net premium income		**34,075**	681	2,046
Other group income		**3,380**	34,143	81,478
Total income		**204,565**	288,028	429,723
Central Fund claims and provisions (incurred)/released	3(iii)	**(16,484)**	(10,331)	18,208
Contribution to Equitas-Berkshire Hathaway transaction	3(iv)	**–**	(90,000)	(90,000)
Gross insurance claims		**(59,800)**	17,003	16,330
Insurance claims recoverable from/(payable to) reinsurers		**26,791**	(16,926)	(17,041)
Other group operating expenses		**(84,434)**	(82,251)	(187,866)
Operating surplus		**70,638**	105,523	169,354
Finance costs	4(i)	**(104,947)**	(43,136)	(53,752)
Finance income	4(ii)	**47,602**	41,821	128,468
Unrealised exchange (losses)/gains on borrowings		**(17,027)**	189	(18,059)
Share of profits of associates		**2,198**	1,918	4,395
(Deficit)/surplus before tax		**(1,536)**	106,315	230,406
Tax charge	5	**(163)**	(31,308)	(65,994)
(Deficit)/surplus for the period/year		**(1,699)**	75,007	164,412

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the six months ended 30 June 2008

	Note	**Six months ended 30 June 2008 £000**	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Exchange difference on translating foreign operations		**(357)**	(73)	43
Unrealised gain on revaluation of Lloyd's Collection		**–**	–	1,138
Actuarial (loss)/gain on pension liabilities	6	**(41,328)**	33,791	54,287
Tax credit/(charge) on items taken directly to equity		**11,571**	(9,535)	(18,357)
Net income and expense recognised directly in equity		**(30,114)**	24,183	37,111
(Deficit)/surplus for the period/year		**(1,699)**	75,007	164,412
Total recognised income and expense for the period/year	8	**(31,813)**	99,190	201,523

GROUP BALANCE SHEET

as at 30 June 2008

	Note	**30 June 2008 £000**	30 June 2007 £000	31 December 2007 (Audited) £000
Assets				
Intangible assets		**386**	364	438
Lloyd's Collection		**10,848**	9,710	10,848
Property, plant and equipment		**16,038**	12,735	15,463
Investment in associates		**8,045**	4,732	7,504
Insurance contract assets – Lioncover Insurance Company Limited		**375,531**	396,185	387,440
– other insurance activities		**31,766**	–	381
Pension asset		**–**	–	16,500
Loans recoverable		**61,342**	62,080	61,826
Financial investments		**1,939,191**	2,186,156	1,981,476
Inventories		**220**	169	197
Trade and other receivables due within one year		**49,630**	43,889	51,956
Prepayments and accrued income		**33,520**	19,198	39,650
Tax receivable		**8,500**	–	–
Forward currency contracts		**11,100**	9,552	9,440
Cash and cash equivalents		**297,743**	294,533	181,689
Total assets		**2,843,860**	3,039,303	2,764,808
Equity and liabilities				
Equity				
Accumulated reserve	8	**896,228**	829,679	927,684
Syndicate loans	7	**–**	332,571	–
Revaluation reserve	8	**10,848**	9,710	10,848
Foreign currency translation reserve	8	**(315)**	(74)	42
Total equity		**906,761**	1,171,886	938,574
Liabilities				
Subordinated notes and perpetual subordinated capital securities		**1,029,291**	992,790	1,011,754
Insurance contract liabilities – Lioncover Insurance Company Limited		**375,531**	396,185	387,440
– other insurance activities		**79,214**	12,400	14,319
Pension liabilities	6	**23,080**	12,692	667
Deferred tax liabilities		**2,365**	7,310	13,654
Provisions		**144,790**	172,011	132,226
Loans funding statutory insurance deposits		**104,076**	102,754	101,562
Trade and other payables		**77,274**	70,713	68,019
Accruals and deferred income		**98,787**	78,454	44,045
Tax payable		**–**	16,728	31,788
Forward currency contracts		**2,691**	5,380	20,760
Total liabilities		**1,937,099**	1,867,417	1,826,234
Total equity and liabilities		**2,843,860**	3,039,303	2,764,808

Approved and authorised for issue by the Council of Lloyd's on 29 July 2008 and signed on their behalf by

LORD LEVENE OF PORTSOKEN
Chairman

RICHARD WARD
Chief Executive Officer

GROUP CASH FLOW STATEMENT

for the six months ended 30 June 2008

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
(Deficit)/surplus before tax	**(1,536)**	106,315	230,406
Net finance cost/(income)	**57,345**	1,315	(74,716)
Unrealised exchange loss/(gain) on borrowings	**17,027**	(189)	18,059
Share of profits of associates	**(2,198)**	(1,918)	(4,395)
Operating surplus	**70,638**	105,523	169,354
Central Fund claims and provisions incurred/(released)	**16,484**	10,331	(18,208)
Operating surplus before Central Fund claims and provisions	**87,122**	115,854	151,146
Adjustments for:			
Depreciation of property, plant and equipment	**1,474**	1,116	2,536
Amortisation of intangible assets	**55**	48	161
Impairment losses	**–**	–	352
(Loss)/profit on sale of fixed assets	**(71)**	210	(41)
Operating surplus before working capital changes and claims paid	**88,580**	117,228	154,154
Changes in pension obligations	**–**	–	(8,600)
Increase in receivables	**(7,486)**	(24,436)	(57,681)
(Increase)/decrease in inventories	**(23)**	15	(13)
Decrease in payables	**113,762**	84,329	62,661
(Increase)/decrease in provisions other than for Central Fund claims	**(1,700)**	5	(814)
Cash generated from operations before claims paid	**193,133**	177,141	149,707
Claims paid in respect of corporate members	**–**	–	(9,348)
Tax and interest payments in respect of corporate members	**–**	(15)	(83)
Claims paid in respect of individual members	**(1,944)**	(544)	(307)
Claims paid in respect of Limited Financial Assistance Agreements	**(276)**	(17)	(1,174)
Cash generated from operations	**190,913**	176,565	138,795
Tax paid	**(40,168)**	(98)	(20,183)
Net cash from operating activities	**150,745**	176,467	118,612
Cash flows from investing activities			
Purchase of property, plant and equipment	**(2,784)**	(1,934)	(6,531)
Proceeds from the sale of equipment	**71**	39	233
Purchase of financial investments	**(721,247)**	(1,134,792)	(2,354,029)
Sale of financial investments	**596,242**	469,681	1,797,931
Increase/(decrease) in short-term deposits	**112,488**	(61,517)	121,069
Dividends received from associates	**1,658**	2,164	2,554
Interest received	**41,270**	36,324	76,601
Dividends received	**2,925**	2,755	4,494
Proceeds from sale of forward currency contracts	**5,436**	16,963	34,005
Purchase of forward currency contracts	**(39,064)**	(12,516)	(28,228)
Net cash used in investing activities	**(3,005)**	(682,833)	(351,901)
Cash flows from financing activities			
Syndicate loan interest paid	**–**	(7,639)	(13,401)
Other interest paid	**(34,731)**	(275)	(32,675)
Increase/(decrease) in borrowings for statutory insurance deposits	**3,809**	(22,303)	(32,625)
Issue of perpetual subordinated capital securities	**–**	500,000	500,000
Issue costs in respect of perpetual subordinated capital securities	**–**	(3,840)	(4,494)
Receipt of syndicate loans	**–**	121,107	121,107
Repayment of syndicate loans	**–**	–	(331,611)
Net proceeds from financing activities	**(30,922)**	587,050	206,301
Net increase/(decrease) in cash and cash equivalents	**116,818**	80,684	(26,988)
Effect of exchange rates on cash and cash equivalents	**(764)**	3,551	(1,621)
Cash and cash equivalents at 1 January	**181,689**	210,298	210,298
Cash and cash equivalents at 30 June/31 December	**297,743**	294,533	181,689

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

as at 30 June 2008

1. THE GROUP INTERIM FINANCIAL STATEMENTS

The group interim financial statements of the Society were approved by the Council of Lloyd's on 29 July 2008. The group interim financial statements comprise the consolidation of the Society of Lloyd's and all its subsidiary undertakings, the Lloyd's Central Fund, and the group's interest in associates as at each balance sheet date.

The group interim financial statements for the six months ended 30 June 2008 and 30 June 2007 are unaudited. The independent review report to the Society of Lloyd's, for the six months ended 30 June 2008, is set out on page 24.

The auditors gave an unqualified report on the financial statements for the year ended 31 December 2007 prepared under IFRS as adopted by the European Union. Their report was included in the Annual Report 2007 which was published on 3 April 2008 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

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

The accounting policies are consistent with those adopted for the Society of Lloyd's Annual Report 2007, which was approved on 2 April 2008.

These group interim financial statements have been prepared in conformity with IAS 34 'Interim Financial Reporting' 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.

3. SEGMENTAL ANALYSIS

The Society's primary business segments are as follows:

a) Corporation of Lloyd's and non-insurance related subsidiary undertakings: the main corporate purposes are to facilitate the carrying on of insurance business by members of Lloyd's and the advancement and protection of their interests in this context. The activities of authorised insurance company subsidiary undertakings are excluded from this business segment.

b) Lloyd's Central Fund: these funds comprising the New Central Fund and 'Old' Central Fund are assets of the Society and are held and administered at the discretion of the Council, primarily as funds available for the protection of policyholders.

c) Insurance activities: the Society has three insurance company subsidiary undertakings, Centrewrite Limited, Lioncover Insurance Company Limited and Lloyd's Reinsurance Company (China) Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates allowing an early exit from Lloyd's; Estate Protection Plan insurance to members. On 27 February 2008, Centrewrite entered into a contract to reinsure the members of Syndicate 535 for outstanding claims liabilities in respect of the 1999, 2000 and 2001 years of account as at 31 December 2007. The sum of the amounts included in the 2008 interim group income statement in respect of Syndicate 535, have a nil profit impact. The insurance contract liabilities of Lioncover were wholly reinsured into Equitas in 1997 and the company does not accept new business. In 2007, Lloyd's Reinsurance Company (China) Limited commenced underwriting onshore reinsurance business throughout China.

A. Information by business segment	**Six months ended 30 June 2008 £000**	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Corporation of Lloyd's			
Segment income			
Members' subscriptions	**35,210**	40,409	81,376
Other segment income	**52,841**	49,338	100,592
Less intra-segment income	**(1,541)**	(1,561)	(3,274)
Total income from external sources	**86,510**	88,186	178,694
Segment operating expenses			
Other group operating expenses:			
– Employment (including pension costs)	**(37,038)**	(33,278)	(81,665)
– Premises	**(17,688)**	(17,166)	(34,942)
– Legal and professional	**(5,996)**	(6,062)	(14,579)
– Systems and communications	**(9,436)**	(7,763)	(18,864)
– Other	**(10,157)**	(11,381)	(20,899)
Total segment operating expenses	**(80,315)**	(75,650)	(170,949)
Finance costs	**(1,472)**	(2,116)	(413)
Finance income	**4,332**	5,450	7,784
Share of profits of associates	**2,198**	1,918	4,395
Segment surplus	**11,253**	17,788	19,511

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

A. Information by business segment continued	Note	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Lloyd's Central Fund				
Segment income				
Contributions from members		**82,278**	166,001	168,346
Other segment income		**1,421**	30,775	77,316
Total income from external sources		**83,699**	196,776	245,662
Segment operating expenses				
Central Fund claims and provisions (incurred)/released		**(16,484)**	(10,331)	18,208
Contribution to Equitas-Berkshire Hathaway transaction		**–**	(90,000)	(90,000)
Other group operating expenses:				
– Legal and professional		**(99)**	(1,466)	(1,714)
– Other		**(2,604)**	(2,522)	(10,658)
Total other operating expenses		**(2,703)**	(3,988)	(12,372)
Total segment operating expenses		**(19,187)**	(104,319)	(84,164)
Finance costs		**(102,845)**	(41,020)	(53,339)
Finance income		**41,733**	35,802	117,136
Unrealised exchange (losses)/gains on borrowings		**(17,027)**	189	(18,059)
Segment (deficit)/surplus		**(13,627)**	87,428	207,236
Insurance activities				
Segment income				
Segment income		**34,356**	3,066	5,367
Total income from external sources		**34,356**	3,066	5,367
Segment operating expenses				
Gross insurance claims		**(59,800)**	17,003	16,330
Insurance claims recoverable from/(payable to) reinsurers		**26,791**	(16,926)	(17,041)
Other group operating expenses:				
– Employment (including pension costs)		**(792)**	(493)	(1,087)
– Premises		**(216)**	(188)	(429)
– Legal and professional		**(237)**	(128)	(287)
– Systems and communications		**(258)**	(214)	(429)
– Other		**87**	(1,590)	(2,313)
Total other operating expenses		**(1,416)**	(2,613)	(4,545)
Total segment operating expenses		**(34,425)**	(2,536)	(5,256)
Finance costs		**(630)**	–	–
Finance income		**1,537**	569	3,548
Segment surplus		**838**	1,099	3,659
Group tax charge	5	**(163)**	(31,308)	(65,994)
Group operating result for the period/year		**(1,699)**	75,007	164,412

3. SEGMENTAL ANALYSIS CONTINUED

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

B. Net central assets	**Six months ended 30 June 2008 £000**	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Central Fund			
Net assets at 1 January	**768,110**	840,373	840,373
Operating surplus	**63,047**	90,976	158,383
Intra-group transactions	**1,465**	1,481	3,115
Net finance	**(78,139)**	(5,029)	45,738
Tax charge	**4,224**	(23,447)	(54,940)
Receipt of syndicate loans	**–**	121,107	121,107
Repayment of syndicate loans	**–**	–	(331,611)
Payment of syndicate loan interest	**–**	(7,639)	(13,401)
Intra-group items taken directly to equity	**–**	–	(4,674)
Tax on items taken directly to equity	**–**	2,292	4,020
Net assets at 30 June/31 December	**758,707**	1,020,114	768,110
Corporation of Lloyd's and subsidiary undertakings	**148,054**	151,772	170,464
Net Society assets at 30 June/31 December	**906,761**	1,171,886	938,574
Subordinated notes	**533,324**	497,458	516,010
Perpetual subordinated capital securities	**495,967**	495,332	495,744
Net central assets excluding subordinated debt	**1,936,052**	2,164,676	1,950,328

(I) CORPORATION OF LLOYD'S SUBSCRIPTIONS AND CENTRAL FUND CONTRIBUTIONS FROM MEMBERS

During the six months ended 30 June 2008, members paid to the Corporation of Lloyd's (members' subscriptions) and to the Central Fund (Central Fund contributions from members) at 0.5% of their allocated overall premium limit (2007: members' subscriptions 0.5% and Central Fund contributions 1.0%). The ultimate amounts to be retained by the Corporation of Lloyd's and the Central Fund for 2008 will be based on actual 2008 written premiums, of members, the quantification of which will not be known until 2010. The £82.3m (Central Fund contribution from members) and £35.2m (members' subscriptions) included in the 2008 interim group income statement are based on the present best estimates of the ultimate amounts that will be retained by the Central Fund and the Corporation of Lloyd's respectively. In 2007, the amounts retained were 100% of the amounts received from members.

(II) CENTRAL FUND OTHER GROUP INCOME

Other group income includes litigation settlement receipts of £nil in the period to 30 June 2008 (30 June 2007: £26m; 31 December 2007: £26m).

(III) CENTRAL FUND CLAIMS AND PROVISIONS

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Annual undertakings granted	**(12,388)**	(15,030)	14,828
Decrease in the value of supporting commitments	**–**	6,057	6,057
Provisions made in respect of Limited Financial Assistance Agreements	**(2,152)**	(1,326)	(2,287)
Claims payable in respect of individual members	**(1,944)**	(17)	(307)
Tax and interest payable in respect of insolvent members	**–**	(15)	(83)
	(16,484)	(10,331)	18,208

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

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL ANALYSIS CONTINUED

For those corporate members in provisional liquidation, the Council has also provided a supporting commitment, which will ensure that in no circumstance will an insurance creditor receive less than the amount it would have received in a winding up commencing on the date of the provisional liquidation. As the supporting undertakings are legally enforceable commitments, an estimate of their value, if applicable, has been included within provisions in the group interim financial statements and changes during the period are reflected in the group income statement, shown in the table above. Supporting commitments as at 30 June 2008 were £nil (30 June 2007: £nil; 31 December 2007: £nil). In the six month period to 30 June 2007, £6.1m was released in the group income statement.

There were no paid undertakings in the six months ended 30 June 2008 (30 June 2007: £nil; 31 December 2007: £9.3m).

(IV) CONTRIBUTION TO EQUITAS-BERKSHIRE HATHAWAY TRANSACTION

Note 26 on page 150 of the Society of Lloyd's Annual Report 2007 provides details of the retrocession and run-off contract between Equitas Holdings Limited, Equitas Limited and National Indemnity Company and the accounting thereof.

4. FINANCE

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
(i) Finance costs			
Interest payable on financial liabilities measured at amortised cost	**(35,566)**	(16,876)	(52,523)
Loss on investments	**(68,065)**	(25,942)	–
Other interest payable and similar charges	**(807)**	(32)	(413)
Amortisation of issue costs and unwinding of discount	**(509)**	(286)	(816)
	(104,947)	(43,136)	(53,752)
(ii) Finance income			
Interest and dividends receivable	**48,211**	40,912	93,347
Gain on investments	**–**	–	33,623
Movement in loans recoverable	**(609)**	909	1,498
	47,602	41,821	128,468

5. TAXATION

(a) Analysis of tax charge	**Six months ended 30 June 2008 £000**	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
Current tax:			
Corporation tax based on profits for 2008 at 28.5% (2007: 30%)	**430**	(25,778)	(61,800)
Adjustments in respect of previous periods	**–**	–	(714)
Foreign tax suffered	**(310)**	(98)	(234)
	120	(25,876)	(62,748)
Deferred tax:			
Origination and reversal of temporary differences – current year	**(283)**	(5,432)	(4,923)
– prior year	**–**	–	1,677
Tax charge	**(163)**	(31,308)	(65,994)
(b) Factors affecting the tax charge			
(Deficit)/surplus before tax	**(1,536)**	106,315	230,406
Corporation tax at 28.5% (2007: 30%)	**438**	(31,894)	(69,122)
Expenses not deductible for tax purposes	**(729)**	(1,005)	(4,798)
Non-taxable income	**46**	1,407	588
Utilisation of tax credits	**91**	98	279
Utilisation of capital losses not previously recognised	**–**	–	4,952
Overseas tax	**(310)**	(98)	(234)
Other	**301**	382	1,818
Deferred tax prior year adjustments	**–**	–	1,677
Deferred tax adjustment for change in tax rate	**–**	(198)	(440)
Corporation tax prior year adjustments	**–**	–	(714)
Tax charge	**(163)**	(31,308)	(65,994)

6. PENSION LIABILITIES

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19 'Employee Benefits' valuation basis, the pension scheme liability at 30 June 2008 was £22.5m (30 June 2007: liability £12.0m; 31 December 2007: asset £16.5m) before the allowance of deferred tax. An actuarial loss of £41.3m, mainly arising from a fall in value of the Scheme's investments, has been recognised in the six months ended 30 June 2008 (30 June 2007: actuarial gain £33.8m; 31 December 2007: actuarial gain £54.3m).

The Corporation of Lloyd's also operates a number of defined benefit plans for qualifying employees based overseas. The total liability of these pension schemes as at 30 June 2008 is £0.6m (30 June 2007: £0.7m; 31 December 2007: £0.7m).

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS CONTINUED

7. SYNDICATE LOANS

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
2005 syndicate loans	**–**	102,675	–
2006 syndicate loans	**–**	109,869	–
2007 syndicate loans	**–**	120,027	–
	–	332,571	–

In 2007, members contributed to the Lloyd's Central Fund partly by way of interest-bearing loans from syndicate premiums trust funds (the syndicate loans). The syndicate loans paid interest annually at a rate equal to specified market indices which recorded the performance of short-dated fixed interest securities. Council agreed to the repayment of all outstanding loans together with accrued interest on 31 July 2007.

8. RECONCILIATION OF MOVEMENT IN EQUITY

	Accumulated reserve £000	Syndicate loans £000	Revaluation reserve £000	Foreign currency translation reserve £000	Total equity £000
At 1 January 2007	733,667	213,560	9,710	(1)	956,936
Total recognised income and expense for the period	99,263	–	–	(73)	99,190
Receipt of syndicated loans	–	121,107	–	–	121,107
Payment of syndicated loan interest	(7,639)	–	–	–	(7,639)
Tax on payment of syndicate loan	2,292	–	–	–	2,292
Revaluation of syndicate loans	2,096	(2,096)	–	–	–
At 30 June 2007	829,679	332,571	9,710	(74)	1,171,886
Total recognised income and expense for the period	101,079	–	1,138	116	102,333
Repayment of syndicate loans	–	(331,611)	–	–	(331,611)
Payment of syndicated loan interest	(5,762)	–	–	–	(5,762)
Tax on payment of syndicate loan	1,728	–	–	–	1,728
Revaluation of syndicate loans	960	(960)	–	–	–
At 31 December 2007	927,684	–	10,848	42	938,574
Total recognised income and expense for the period	**(31,456)**	**–**	**–**	**(357)**	**(31,813)**
At 30 June 2008	**896,228**	**–**	**10,848**	**(315)**	**906,761**

9. RELATED PARTY TRANSACTIONS

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

Services provided to Ins-Sure Holdings Limited group in the period to 30 June 2008 included operating systems support and development, premises and other administrative services. The total value of the services provided was £360,000 (30 June 2007: £337,000; 31 December 2007: £615,000). In addition, Ins-Sure Holdings Limited group have charged the Society £1,027,000 for services provided in the same period (30 June 2007: £356,000; 31 December 2007: £2,680,000).

At 30 June 2008, there was a balance of £138,000 (30 June 2007: £103,000; 31 December 2007: 101,000) owing from Ins-Sure Holdings Limited group to the Society. The Society owed £21,000 to Ins-Sure Holdings Limited at the same date (30 June 2007: £nil; 31 December 2007: £nil).

Services provided to Xchanging Claims Services Limited group in the period to 30 June 2008 included premises and other administrative services. The total value of the services provided was £52,000 (30 June 2007: £91,000; 31 December 2007: £107,000). In addition, Xchanging Claims Services Limited group have charged the Society £nil for services provided in the same period (30 June 2007: £nil; 31 December 2007: £nil).

At 30 June 2008, there was a balance of £9,000 (30 June 2007: £5,000; 31 December 2007: £5,000) owing from Xchanging Claims Services Limited group to the Society. The Society owed £nil to Xchanging Claims Services Limited at the same date (30 June 2007: £nil; 31 December 2007: £nil).

Transactions with associates are priced on an arm's-length basis.

A member of Council, Rupert Atkin, is also a Director of Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited. These companies benefit from undertakings given by the Council in 2008 to meet unpaid cash calls. No amounts were paid under these undertakings to 30 June 2008 (30 June 2007: £nil; 31 December 2007: £nil).

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

10. CONTINGENT LIABILITIES

Note 25 on page 149 of the Society of Lloyd's Annual Report 2007 provides details of the Society of Lloyd's contingent liabilities as at 31 December 2007. As at 30 June 2008, the amounts and nature of contingent liabilities were not significantly different from those at the year end. On 1 July 2008, the High Court struck out a claim brought by 51 names against Lloyd's alleging the description of reinsurance to close in Lloyd's brochures back in the 1980s was fraudulent.

In respect of all contingent liabilities disclosed as at 31 December 2007 and 30 June 2008, no provision has been made in these group interim financial statements as Lloyd's does not accept any liability in respect of any of the claims.

INDEPENDENT REVIEW REPORT TO THE SOCIETY OF LLOYD'S

The following is the text of the independent review report to the Society of Lloyd's extracted from the Society of Lloyd's Group Interim Financial Statements for the six months ended 30 June 2008.

"INTRODUCTION

We have been engaged by the Council of Lloyd's to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the group income statement, the group statement of recognised income and expense, the group balance sheet, the group cash flow statement and the related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society of Lloyd's in accordance with guidance contained in ISRE 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

COUNCIL OF LLOYD'S

The half-yearly financial report is the responsibility of, and has been approved by, the Council of Lloyd's. The Council of Lloyd's is responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the Society of Lloyd's are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the Society of Lloyd's a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

ERNST & YOUNG LLP, LONDON

29 July 2008"

Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

The cover and text pages of this report are printed on Revive 50:50 Silk, a recycled paper containing 50% recovered waste, 50% virgin fibre and is certified as an FSC mixed sources grade. Revive 50:50 is manufactured to the certified environmental management system ISO 14001.
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