

INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2006

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IN BRIEF

	As at 30 June 2006	As at 30 June 2005	As at 31 December 2005
Gross premiums written	£9,966m	£8,395m	£14,982m
Net earned premiums	£6,067m	£5,576m	£11,785m
Net claims incurred	£3,288m	£3,161m	£9,505m
Net operating expenses	£1,927m	£1,707m	£3,668m
Combined ratio	86.0%	87.3%	111.8%
Net profit/(loss) before tax	£1,351m	£1,377m	(£103m)

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT



Peter Levene, Chairman



Richard Ward, Chief Executive Officer

The strong financial performance of the Lloyd's market in the first half of 2006, reporting a profit of £1.35bn, is a combination of good underwriting conditions and the market's continual focus on underwriting discipline.

This profit figure was materially unchanged from last year. However, underlying that consistent result is a 20% improvement in underwriting profit offset by a smaller contribution from investment income compared with the same period last year.

Lloyd's improved combined ratio in the first half of 86.0% (June 2005: 87.3%) was better than those recorded by all of its major peer groups.

Our full year result will be strongly influenced by the claims activity over the remaining three months of the year across the many catastrophe lines we insure, with the current US hurricane season being the obvious, but by no means the only, focus of attention.

The market's commitment to disciplined underwriting underpins our confidence in the stability of the market – a sentiment reinforced by the recent affirmation of the market's 'A' rating by all three rating agencies.

The Lloyd's market continues to benefit from a unique combination of strengths and benefits:

- A market-wide 'A' financial strength rating
- A subscription market, which can handle the largest and toughest risks
- A flexible, highly efficient mutual capital structure and diverse capital base
- A powerful global brand and reputation.

Building on success

Despite last year's record hurricane season, all insurers in the Lloyd's market continued to trade forward, which clearly demonstrated the progress the market has made over the last few years. In light of last year's experience in the Gulf of Mexico, the market took a detailed look at its exposures, managing down its risk where appropriate.

The first half of 2006 presented insurers with new opportunities as a result of which around £2bn of new capital has been injected into the Lloyd's market. Some of this went to existing businesses and some into new syndicates, where we have seen five start ups since last year.

Lloyd's has set out its vision to be the best place to write specialist insurance and reinsurance. The dual challenge and opportunity of Lloyd's is to continue to keep a clear focus on improving the performance of the market, while at the same time ensuring we improve the market's competitive position.

A number of changes that will benefit the market have been introduced, particularly in the areas of market performance, capital and contract certainty.

Performance framework

Performance standards have been put in place which will improve underwriting, claims and risk management practices.

Capital structure

Lloyd's offers unique and attractive capital advantages that we continue to enhance. Following the implementation of a new risk-based capital regime and the introduction of semi-annual profit releases, we have now brought Lloyd's asset rules into line with the FSA's regulation of the company market eliminating the need for syndicates to comply with two sets of requirements.

THE MARKET'S COMMITMENT TO DISCIPLINED UNDERWRITING UNDERPINS OUR CONFIDENCE IN THE STABILITY OF THE MARKET

Central resources have increased significantly in recent years and the improvements that we have made in underwriting risk management mean our central resources are better protected against the impact of catastrophic events. In line with our objective of reducing the cost of mutuality we have signalled an expectation of a Central Fund contribution rate cut in 2008, if circumstances permit, a year earlier than previously planned.

A modern marketplace

The London market has set a target level of 85% contract certainty by the end of 2006. We are making good progress towards the challenge of contract certainty and we are on track to meet the end of year target. We are implementing processes and systems which will result in a more efficient marketplace.

Further developments and improvements have been made to the claims handling process. An electronic claims repository has been established and is set to be fully operational by the end of 2006. All parties involved in a claim will be able to share an electronic copy of the claims file. This will save time and money, improving the level of service to the policyholder.

Building our global network

Lloyd's investment in, and development of, its extensive global network remains a critical element of the business. Following the approval to set up an onshore reinsurance operation in China in November last year, we are on track to establish a presence in Shanghai later this year and expect to be fully licensed by early 2007.

Leading the debate

Lloyd's is dedicated to helping shape the debate on key industry issues. We welcome the Chancellor's initiative in this year's Budget to promote the UK's financial services sector and are contributing to those discussions. We have explored the implications of climate change through a recent report and

debate which attracted worldwide attention. We continue to lobby for changes in the rules governing the funding of the reinsurance trust fund in the US.

Meeting the challenge

Lloyd's is in good shape, with all our energy focused on future challenges and opportunities. As the world's leading specialist insurer, we must continue to be driven, not only by developments within our own market, but also by changes occurring in the wider insurance and business community.

Market commentary

The underwriting profit for the six months to June 2006 of £852m (June 2005: £708m) with a combined ratio of 86.0% (June 2005: 87.3%) reflected the favourable market conditions across all lines of business. Overall 2006 loss experience has been relatively benign despite noteworthy claims in marine hull, cargo, cash-in-transit and, most recently, airline markets.

Prior year loss development has not been significant. There have been instances of increases in 2005 US hurricane claim estimates with a limited charge of £208m in the first half year. In view of the size and scale of the US hurricanes, this modest 6% rise in ultimate net claims estimates to £3,517m (December 2005: £3,309m) compares well against reserve increases reported by peers and is testament to the thorough and professional assessment of estimated liabilities undertaken by the market. In aggregate, however, prior accident years have reported a small surplus with no additional underwriting losses falling to insolvent members supported by the New Central Fund.

'Tale of Two Markets'

The first half year saw a continued hardening of terms for catastrophe, especially windstorm exposed risks in the US. This has resulted in a 19% increase in gross written premiums to £10.0bn (June 2005: £8.4bn), with the largest increase reported

in property treaty income. This demonstrates the market's ability to deploy additional capacity rapidly to take up attractive terms supported by the diversity of our underwriting and an efficient capital base.

There is, however, a clear disparity between the pricing of US windstorm exposed property risks and other classes both in the US and elsewhere. Other classes continue to show a flat to deteriorating trend, with many key casualty accounts reporting a third or fourth year of rate reductions.

The cost and availability of reinsurance

Market conditions, already tight at 1 January, have proved difficult and reinsurance capacity is in short supply for peak US catastrophe exposures, with increased prices and reductions in coverage. Notwithstanding alternatives such as Industry Loss Warranty (ILW) covers and catastrophe bonds, the first half saw a marked emphasis on reducing direct and assumed reinsurance aggregate exposure and managing the point at which policies attached. The relative lack of reinsurance capacity has had a significant effect on the way in which business is being underwritten as well as the risk appetite of the market.

Weaker bond prices drive reduced investment returns

Investment return has fallen to £571m (June 2005: £657m) due to the increase in the fixed income yield curve in the US and the UK. The overall positive return of 1.7% (June 2005: 2.2%) on syndicate and member funds reflects the relatively short term duration of the fixed income portfolio and the higher proportion of cash held.

Limited impact of US\$ exchange rate fluctuations

The US is the single largest market for Lloyd's and fluctuations in exchange rates impact the results. The US dollar has weakened in the period and for entities reporting under IFRS this has led to

significant adverse timing differences on exchange. The market results, however, are not subject to such significant movements as they are reported under UK GAAP where, in general, net non-monetary liabilities and the associated assets are reported at period end rates of exchange.

Conclusion

Although the pivotal 2006 Atlantic windstorm season may still prove to be more benign than expected, effectively managing risk and aggregate exposure to natural catastrophes of all kinds remains a key priority for the market. Whilst weather forecasts and incidence of catastrophes may dictate the market performance for the second half year, in the medium to longer term the market must remain focused on underwriting for profit.

Society of Lloyd's group interim financial statements

Net assets of the Society increased by £134m in the six months to 30 June 2006 to £899m. This includes a surplus for the period after taxation of £17m and the collection of £111m in syndicate loans. Net assets are not expected to change materially during the second half of 2006.

A number of factors have driven the result for the period shown in the group income statement: increased members' contributions to the Central Fund by 0.5% to 1% of capacity, a lower charge for Central Fund claims and provisions to meet underwriting liabilities within the next 12 months, offset by lower investment returns.

Operating expenses in total are materially unchanged from the comparative period in 2005. We remain focused on delivering our objectives while maintaining cost discipline. Members' subscriptions are to be held at 0.5% of capacity for 2007.

Investment returns in the period have been adversely affected by higher global bond yields and weakness in the US dollar. Total returns, in sterling terms, are equal to -0.4% (2005: 4.6%) of invested assets. However, a significant proportion of total assets are invested to mitigate capital market risks arising on certain of the Society's liabilities. The same market movements have caused the present value of these liabilities to reduce. After adjusting for the movement in liabilities and taking account of financing costs, the effective return on the net assets of the Society is 1.1%. Amendments to the Society's currency risk hedging policies during 2006 have further reduced prospective asset volatility in sterling terms.

Looking ahead

The outlook for 2006 stays positive, but we must remain disciplined and focused on performance management. We recognise that the overall annual result will reflect loss activity that occurs during the remainder of the year, but we are confident that as events happen and market conditions change, the market will adapt appropriately.



Peter Levene, Chairman



Richard Ward, Chief Executive Officer

26 September 2006

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 includes 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 2006 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, therefore, aggregates the syndicate underwriting results, the notional investment return on members' capital and the results of the Society of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as FAL, and the central resources of the Society. Overall, therefore, 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 associate undertakings.

PRO FORMA PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2006

	Six months ended 30 June 2006 £m	Six months ended 30 June 2005 £m	Full year 2005 £m
Technical account			
Gross premiums written – continuing operations	9,975	8,359	14,979
– discontinued operations	(9)	36	3
	9,966	8,395	14,982
Outward reinsurance premiums	(2,406)	(1,928)	(3,212)
Premiums written, net of reinsurance	7,560	6,467	11,770
Change in the gross provision for unearned premiums	(2,557)	(1,410)	230
Change in provision for unearned premiums, reinsurers' share	1,064	519	(215)
	(1,493)	(891)	15
Earned premiums, net of reinsurance	6,067	5,576	11,785
Allocated investment return transferred from the non-technical account	313	358	705
	6,380	5,934	12,490
Claims paid			
Gross amount	6,108	4,409	10,181
Reinsurers' share	(2,815)	(1,535)	(3,418)
	3,293	2,874	6,763
Change in provision for claims			
Gross amount	(2,128)	(388)	6,726
Reinsurers' share	2,123	675	(3,984)
	(5)	287	2,742
Claims incurred, net of reinsurance	3,288	3,161	9,505
Acquisition costs	1,971	1,653	2,921
Change in deferred acquisition costs	(443)	(267)	(8)
Administrative expenses	375	417	872
(Profit)/loss on exchange	24	(96)	(117)
Net operating expenses	1,927	1,707	3,668
Balance on the technical account for general business	1,165	1,066	(683)
Attributable to:			
Continuing operations	1,101	1,061	(538)
Discontinued operations	64	5	(145)
Total	1,165	1,066	(683)
Pro forma non-technical account			
Balance on the technical account for general business	1,165	1,066	(683)
Syndicate investment return	313	358	705
Notional investment return on funds at Lloyd's	258	299	602
Investment return and other income on Society assets	26	109	191
	597	766	1,498
Allocated investment return transferred to the technical account	(313)	(358)	(705)
	284	408	793
Other expenses	(98)	(97)	(213)
Pro forma result for the period/year before tax	1,351	1,377	(103)
	Six months ended 30 June 2006 £m	Six months ended 30 June 2005 £m	Full year 2005 £m
Statement of total recognised gains and losses			
Result for the period/year	1,351	1,377	(103)
Other recognised gains and losses	19	(2)	42
Total recognised gains and losses	1,370	1,375	(61)

PRO FORMA BALANCE SHEET

as at 30 June 2006

	30 June 2006		30 June 2005		31 December 2005	
	£m	£m	£m	£m	£m	£m
Financial investments						
Shares and other variable yield securities	2,304		2,655		2,398	
Debt securities and other fixed income securities	18,514		19,162		20,279	
Participation in investment pools	675		340		564	
Loans and deposits with credit institutions	2,707		1,405		2,275	
Other investments	14		51		7	
Total investments		24,214		23,613		25,523
Deposits with ceding undertakings		17		9		14
Reinsurers' share of technical provisions						
Claims outstanding	11,631		9,348		14,450	
Unearned premiums	1,715		1,441		696	
		13,346		10,789		15,146
Debtors						
Debtors arising out of direct operations	4,549		4,218		3,853	
Debtors arising out of reinsurance operations	4,674		3,724		3,629	
Other debtors	466		615		685	
		9,689		8,557		8,167
Other assets						
Tangible assets	18		7		17	
Cash at bank and in hand	8,103		7,385		8,045	
Overseas deposits	1,537		1,436		1,444	
Other	25		60		10	
		9,683		8,888		9,516
Prepayments and accrued income						
Accrued interest and rent	93		63		93	
Deferred acquisition costs	1,897		1,736		1,503	
Other prepayments and accrued income	210		139		91	
		2,200		1,938		1,687
Total assets		59,149		53,794		60,053
Capital, reserves and subordinated loan notes						
Members' funds at Lloyd's	11,121		9,749		10,206	
Members' balances	(957)		1,045		(408)	
Central reserves	899		685		693	
Capital and reserves	11,063		11,479		10,491	
Subordinated loan notes	502		497		501	
		11,565		11,976		10,992
Technical provisions						
Provision for unearned premiums	9,089		8,389		6,829	
Claims outstanding	33,839		29,492		37,719	
		42,928		37,881		44,548
Deposits received from reinsurers		153		41		142
Creditors						
Creditors arising out of direct insurance operations	1,065		647		884	
Creditors arising out of reinsurance operations	2,545		2,126		2,228	
Other creditors including taxation	718		912		1,113	
		4,328		3,685		4,225
Accruals and deferred income		175		211		146
Total liabilities		59,149		53,794		60,053

PRO FORMA CASH FLOW STATEMENT

for the six months ended 30 June 2006

	Six months ended 30 June 2006 £m	Six months ended 30 June 2005 £m	Full year 2005 £m
Pro forma result for the period/year before tax	1,351	1,377	(103)
Depreciation	1	1	2
Realised and unrealised investment (gains)/losses and foreign exchange	1,016	(690)	(1,060)
Net sale/(purchase) of investments	919	(990)	(2,212)
Notional return on funds at Lloyd's	(258)	(299)	(602)
Increase in technical provisions	394	1,974	4,314
(Increase) in debtors	(1,757)	(1,394)	(519)
Increase/(decrease) in creditors	(267)	675	1,031
Cash generated from operations	1,399	654	851
Income taxes received	10	80	82
Net cash from operating activities	1,409	734	933
Cash flows from financing activities			
Net (profits)/losses (paid to)/received from members	(1,346)	(1,454)	(994)
Increase in loans	–	–	40
Interest paid	(5)	–	(39)
Net increase/(decrease) in cash holdings	58	(720)	(60)
Cash holdings at beginning of period	8,045	8,105	8,105
Cash holdings at 30 June/31 December	8,103	7,385	8,045

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS

as at 30 June 2006

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 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 of Lloyd's 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 15 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 of Lloyd's. The balance sheet in the PFFS aggregates the assets held at syndicate level, members' assets held as funds at Lloyd's 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 Corporation 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.

10 Market results

- (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 loan notes

In accordance with the terms of the subordinated loan notes, the capital raised is available for payment to policyholders in advance of repayment to the note holders. Accordingly, the amount of the notes is included in 'capital, reserves and subordinated loan notes' 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 in the 2005 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.

C. Society of Lloyd's

The accounting policies adopted in the preparation of the PFFS are in accordance with UK GAAP and are consistent with those adopted in the 2005 Annual Report.

4. Variability

Movements in reserves are based upon best estimates as at 30 June 2006 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 estimate 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 2006, the results for that business have also been reported as discontinued in the 2005 comparative figures.

6. Members' funds at Lloyd's

The valuation of members' funds at Lloyd's (FAL) in the balance sheet totals £11,121m (June 2005: £9,749m, December 2005: £10,206m).

The notional investment return on FAL included in the non-technical profit and loss account totals £258m (June 2005: £299m, December 2005: £602m).

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 £207m (June 2005: £143m, December 2005: £179m) in the technical account and a net loss of £72m (June 2005: profit of £12m, December 2005: loss of £13m) in the non-technical account.

NOTES TO THE INTERIM PRO FORMA FINANCIAL STATEMENTS continued

as at 30 June 2006

8. Aggregation of results and net assets

A reconciliation between the results, statement of realised gains and losses and net assets reported in the syndicate returns, members funds at Lloyd's and the Society of Lloyd's group financial statements prepared under UK GAAP is set out below:

	Six months ended 30 June 2006 £m	Six months ended 30 June 2005 £m	Full year 2005 £m
Result per syndicate returns	959	923	(871)
Result of Society	17	(36)	(25)
Central Fund claims and provisions in Society group financial statements	112	217	224
Central Fund recoveries from insolvent members	(1)	–	(12)
Taxation (credit)/charge in Society group financial statements	7	(26)	(17)
Interest receivable on syndicate loans to Central Fund accrued in syndicate returns	(1)	–	(4)
Notional investment return on members' funds at Lloyd's	258	299	602
Result on ordinary activities pre-tax	1,351	1,377	(103)

	Six months ended 30 June 2006 £m	Six months ended 30 June 2005 £m	Full year 2005 £m
Result for the period	1,351	1,377	(103)
Other recognised gains and losses per syndicate returns	9	(14,875)	(14,832)
Other recognised gains and losses per Society group financial statements	10	(2)	(1)
Elimination of prior year adjustment in syndicate returns	–	14,875	14,875
Total recognised gains and losses	1,370	1,375	(61)

	30 June 2006 £m	30 June 2005 £m	31 December 2005 £m
Net assets per syndicate returns	(911)	937	(463)
'Equity' of the Society	899	685	693
Central Fund claims and provisions in Society group financial statements	170	213	166
Members' funds at Lloyd's	11,121	9,749	10,206
Syndicate loans to Central Fund in syndicate returns	(215)	(105)	(107)
Interest receivable on syndicate loans to Central Fund accrued in syndicate returns	(1)	–	(4)
Capital and reserves	11,063	11,479	10,491

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 £5,914m (June 2005: £5,301m, Dec 2005: £5,595m).

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

In accordance with the instructions issued to us by the Council of Lloyd's, we have reviewed the Lloyd's interim pro forma financial statements ('the PFFS') for the six months ended 30 June 2006, 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 review, 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.

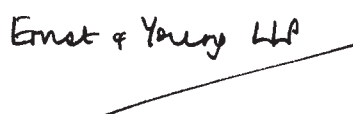
Scope of Review

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 might 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 our 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 2006.



Ernst & Young LLP
More London Place
London

26 September 2006

GROUP INCOME STATEMENT

for the six months ended 30 June 2006

	Note	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full year 2005 (Audited) £000
Operating income		84,852	80,780	162,353
Central Fund contributions		150,592	69,675	70,077
General insurance net premium income		685	947	2,769
Other group income		2,448	4,599	18,637
Total income		238,577	156,001	253,836
Central Fund claims and provisions	3 (ii)	(111,748)	(212,164)	(223,889)
Gross insurance claims incurred		(56,970)	(30,623)	(30,039)
Insurance claims recoverable from reinsurers		57,046	30,222	29,844
Other operating expenses		(80,185)	(80,403)	(172,097)
Operating surplus/(deficit)	3	46,720	(136,967)	(142,345)
Finance costs	4	(17,747)	(6,873)	(33,653)
Finance income	4	(6,449)	64,951	129,033
Share of profits of associates		1,212	931	2,006
Surplus/(deficit) before tax		23,736	(77,958)	(44,959)
Tax (charge)/credit	5	(7,175)	26,377	17,343
Surplus/(deficit) for the period/year		16,561	(51,581)	(27,616)

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the six months ended 30 June 2006

	Note	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full year 2005 (Audited) £000
Exchange difference on translating foreign operations		(53)	14	(43)
Actuarial gain/(loss) on pension liabilities	6	14,109	(2,900)	(1,979)
Tax on items taken directly to equity		(4,233)	870	594
Net income and expense recognised directly in equity		9,823	(2,016)	(1,428)
Surplus/(deficit) for the period/year		16,561	(51,581)	(27,616)
Total recognised income and expense for the period/year	8	26,384	(53,597)	(29,044)

GROUP BALANCE SHEET

as at 30 June 2006

		30 June 2006	30 June 2005	31 December 2005 (Audited)
	Note	£000	£000	£000
ASSETS				
Intangible assets		264	223	176
Lloyd's Collection		9,710	9,710	9,710
Property, plant and equipment		8,675	6,588	7,426
Deferred tax asset		4,476	23,952	11,319
Investment in associates		3,426	3,416	4,162
Reinsurance assets – Lioncover Insurance Company Limited		492,067	492,472	526,848
Reinsurance assets – Centrowrite Limited		243	552	174
Loans recoverable		62,217	61,991	61,609
Financial investments		1,474,638	1,183,836	1,153,146
Inventories		417	479	401
Trade and other receivables		44,584	30,074	34,440
Prepayments and accrued income		14,042	12,306	12,685
Tax receivable		–	9,013	9,917
Forward currency contracts		4,695	4,038	1,886
Cash and cash equivalents		273,628	443,650	417,109
Total assets		2,393,082	2,282,300	2,251,008
EQUITY AND LIABILITIES				
Equity				
Accumulated reserve	8	674,606	624,639	648,008
Syndicate loans	7	214,609	105,184	106,834
Revaluation reserve	8	9,710	9,710	9,710
Foreign currency translation reserve	8	(37)	73	16
Total equity		898,888	739,606	764,568
Liabilities				
Subordinated loan notes		502,317	497,025	500,782
Insurance contract liabilities – Lioncover Insurance Company Limited		492,067	492,472	526,848
Insurance contract liabilities – Centrowrite Limited		16,292	14,385	16,424
Pension liability	6	38,948	51,700	52,209
Provisions		173,633	224,527	183,118
Loans funding statutory insurance deposits		126,320	117,509	115,750
Trade and other payables		63,393	67,045	50,157
Accruals and deferred income		73,159	74,917	39,345
Tax payable		3,120	–	–
Forward currency contracts		4,945	3,114	1,807
Total liabilities		1,494,194	1,542,694	1,486,440
Total equity and liabilities		2,393,082	2,282,300	2,251,008

GROUP CASH FLOW STATEMENT

for the six months ended 30 June 2006

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full year 2005 (Audited) £000
Cash flows from operating activities			
Operating surplus/(deficit)	46,720	(136,967)	(142,345)
Central Fund claims and provisions	111,748	212,164	223,889
Operating surplus before Central Fund claims and provisions	158,468	75,197	81,544
Adjustments for:			
Depreciation	942	873	1,874
Amortisation of intangible assets	59	65	126
Impairment losses	–	–	231
Loss on sale of fixed assets	5	2	3
Operating surplus before working capital changes and claims paid	159,474	76,137	83,778
(Increase)/decrease in receivables	(8,125)	(59,358)	41,519
(Increase)/decrease in inventories	(16)	(18)	60
Increase/(decrease) in payables	23,998	105,784	(25,899)
Increase/(decrease) in provisions other than for Central Fund claims	775	(694)	681
Cash generated from operations before claims paid	176,106	121,851	100,139
Claims paid in respect of corporate members	(120,714)	(94,896)	(145,587)
Tax and interest payments in respect of corporate members	(5)	–	(2,121)
Claims paid in respect of individual members	(503)	(632)	(2,329)
Claims paid in respect of Limited Financial Assistance Agreements	(785)	–	–
Cash generated from/(used in) operations	54,099	26,323	(49,898)
Tax received	9,946	79,549	82,082
Net cash from operating activities	64,045	105,872	32,184
Cash flows from investing activities			
Purchase of property, plant and equipment	(2,937)	(1,537)	(2,774)
Proceeds from sale of equipment	70	130	168
Proceeds from sale of buildings	–	9,463	9,463
(Purchase)/sale of other financial assets	(371,633)	3,615	62,522
Dividends received from associates	2,329	798	1,390
Dividends and interest received	36,371	30,537	62,113
Net cash (used in)/from investing activities	(335,800)	43,006	132,882
Cash flows from financing activities			
Interest paid	(5,157)	(847)	(39,162)
Increase in borrowings for statutory insurance deposits	20,165	10,178	4,591
Receipt of syndicate loans	110,991	103,202	103,611
Net proceeds from financing activities	125,999	112,533	69,040
Net (decrease)/increase in cash and cash equivalents	(145,756)	261,411	234,106
Effect of exchange rates on cash and cash equivalents	2,275	794	1,558
Cash and cash equivalents at 1 January	417,109	181,445	181,445
Cash and cash equivalents at 30 June/31 December	273,628	443,650	417,109

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

as at 30 June 2006

1 The group interim financial statements

The group interim financial statements of the Society were approved by the Council of Lloyd's on 26 September 2006. 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 2006 and 30 June 2005 are unaudited. The independent review report, for the six months ended 30 June 2006, to the Society of Lloyd's is set out on page 24.

The Auditors gave an unqualified report on the group financial statements for the year ended 31 December 2005 prepared under IFRS. Their report was included in the 2005 Annual Report which was published on 16 May 2006 and is available on www.lloyds.com. Copies may also be obtained from the Secretary to the Council.

2 Accounting policies

The accounting policies are consistent with those adopted for the Society of Lloyd's 2005 Annual Report, which was approved on 5 April 2006, except for the adoption of all International Accounting Standards (IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) mandatory for periods beginning on or after 1 January 2006. There has been no material impact on the Society's group interim financial statements as a result of adopting these standards and interpretations.

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. Actual results may differ from these estimates.

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 two insurance company subsidiary undertakings, Centrewrite Limited and Lioncover Insurance Company Limited. Centrewrite provides Exeat insurance to resigned members participating only on run-off syndicates allowing an early exit from Lloyd's and Estate Protection Plan insurance to members. The insurance contract liabilities of Lioncover were wholly reinsured into Equitas in 1997 and the company does not accept new business.

	Note	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full year (Audited) 2005 £000
3 Segmental analysis continued				
Corporation of Lloyd's				
Operating income				
Members' subscriptions		37,071	34,422	68,804
Market charges		41,462	38,837	78,876
Other operating income		6,224	6,357	13,539
Total operating income		84,757	79,616	161,219
Other group income		1,761	3,466	6,542
Total income		86,518	83,082	167,761
Other operating expenses				
Employment		24,848	21,605	47,842
Pension costs		3,241	3,937	11,312
Premises		15,232	14,795	29,691
Legal and professional		4,371	4,259	9,892
Overseas operations		12,229	10,701	23,114
Other		14,915	12,376	28,651
		74,836	67,673	150,502
Kinnect costs		2,446	8,479	15,504
Total other operating expenses		77,282	76,152	166,006
Operating surplus		9,236	6,930	1,755
Lloyd's Central Fund				
Operating income		95	1,164	1,134
Contributions from members	3 (i)	150,592	69,675	70,077
Other group income		687	1,133	12,095
Total income		151,374	71,972	83,306
Operating expenses				
Central Fund claims and provisions	3 (ii)	111,748	212,164	223,889
Other operating expenses		2,754	4,113	5,907
		114,502	216,277	229,796
Operating surplus/(deficit)		36,872	(144,305)	(146,490)
Insurance activities				
General insurance net premium income		685	947	2,769
Gross insurance claims incurred		(56,970)	(30,623)	(30,039)
Insurance claims recoverable from reinsurers		57,046	30,222	29,844
Other operating expenses		(149)	(138)	(184)
Operating surplus		612	408	2,390
Group operating surplus/(deficit)		46,720	(136,967)	(142,345)

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS continued

as at 30 June 2006

3 Segmental analysis continued

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

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full Year (Audited) 2005 £000
Central Fund			
Net assets at 1 January	670,354	606,633	606,633
Operating surplus/(deficit)	36,872	(144,305)	(146,490)
Intra-group transactions	(1,375)	(1,248)	(2,510)
Net finance	(27,003)	53,695	86,816
Tax (charge)/credit	(2,516)	32,003	22,294
Receipt of syndicate loans	110,991	103,202	103,611
Payment of syndicate loan interest	(4,365)	–	–
Tax on items taken directly to equity	1,310	–	–
Net assets at 30 June/31 December	784,268	649,980	670,354
Corporation of Lloyd's and subsidiary undertakings	114,620	89,626	94,214
Net Society assets at 30 June/31 December	898,888	739,606	764,568
Subordinated loan notes	502,317	497,025	500,782
Net central assets excluding subordinated loan liability	1,401,205	1,236,631	1,265,350

(i) Central Fund contributions from members

Members contribute based on a percentage of their allocated overall premium limit. However, as in 2005 this is partly achieved by contributions of 1.00% (2005: 0.50%) and partly by way of interest bearing syndicate loans of 0.75% (2005: 0.75%) (see note 7). The syndicate loans are treated as part of the Society of Lloyd's equity. Contributions included in the group income statement fall due on 3 April and have therefore been recognised in full in these group interim financial statements.

(ii) Central Fund claims and provisions

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full Year (Audited) 2005 £000
Annual undertakings granted	114,575	216,374	217,568
Decrease in the value of supporting commitments	(4,606)	(4,842)	(130)
Provisions made in respect of Limited Financial Assistance Agreements	1,271	–	2,001
Claims payable in respect of individual members	503	632	2,329
Tax and interest payable in respect of insolvent members	5	–	2,121
	111,748	212,164	223,889

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 of Lloyd's and become contractual commitments. These undertakings are granted wholly at the discretion of the Council of Lloyd's on an annual basis and therefore are not deemed constructive obligations. For those corporate members in provisional liquidation, the Council of Lloyd's 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 has been included within provisions in the group interim financial statements and changes during the period are reflected in the group income statement, as shown in the table above.

3 Segmental analysis continued

The table below discloses the paid undertakings by corporate member:

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full Year (Audited) 2005 £000
Blodget and Hazard Limited	3,662	2,743	3,203
Cotesworth Capital Limited (in provisional liquidation)	17,500	–	–
Crowe Corporate Capital Limited	–	2	2,500
Crowe Dedicated Limited	–	–	535
Dreason Underwriting Limited	–	26	475
Duncanson & Holt Underwriters Limited	–	973	973
Grenville Underwriting I/II/III Limited	–	683	6,518
Jago Capital Limited	–	262	1,116
Kite Dedicated Capital Limited (formerly Goshawk Dedicated (No 2) Limited)	69,665	51,225	76,225
MMO UK Limited	–	4,917	4,917
Shrewsbury Underwriting Capital (Bermuda) Limited and Shrewsbury Underwriting Capital Limited	29,871	30,000	40,000
SOC Corporate Member No.1 Limited	–	3,547	6,870
Other corporate members	16	518	2,255
Paid during the period/year	120,714	94,896	145,587

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full year (Audited) 2005 £000
4 Finance costs and income			
Finance costs (i)			
Interest payable and similar charges	16,212	16,287	39,387
Amortisation of issue costs and unwinding of discount	278	355	564
Unrealised exchange loss/(gain) on retranslation of subordinated loan notes	1,257	(9,769)	(6,298)
	17,747	6,873	33,653
Finance income (ii)	(6,449)	64,951	129,033

(i) Interest on subordinated loan notes which were issued in two tranches on 17 November 2004 is included within finance costs above. The £300m sterling notes carry a coupon of 6.875% and the €300m euro notes carry a coupon of 5.625%. The terms of repayment of the subordinated loan notes are set out in the Society of Lloyd's 2005 Annual Report.

(ii) Finance income for the six months ended 30 June 2006 is negative overall, reflecting (a) losses arising on fixed interest investments in an environment of rising yields and (b) foreign exchange losses driven by the weakness of the US dollar during the period.

NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS continued

as at 30 June 2006

5 Taxation

	Six months ended 30 June 2006 £000	Six months ended 30 June 2005 £000	Full Year (Audited) 2005 £000
(a) Analysis of tax (charge)/credit			
Current tax:			
Corporation tax based on profits for the period/year at 30%	(4,429)	–	–
Adjustments in respect of previous periods	31	3,914	7,351
Foreign tax suffered	(3)	(3)	(6)
	(4,401)	3,911	7,345
Deferred tax:			
Origination and reversal of timing differences	(2,774)	22,466	9,998
Tax (charge)/credit for the period/year	(7,175)	26,377	17,343
(b) Factors affecting the tax (charge)/credit			
Surplus/(deficit) before tax	23,736	(77,958)	(44,959)
Corporation tax at 30%	(7,121)	23,388	13,488
Expenses not deductible for tax purposes	(221)	(784)	(4,947)
Non-taxable income	–	–	1,860
Unutilised tax losses	(243)	–	(1,128)
Overseas tax	(3)	(3)	(6)
Adjustments made in respect of previous periods	31	3,914	7,351
Other	382	(138)	725
Tax (charge)/credit for the period/year	(7,175)	26,377	17,343

6 Pension scheme

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund, the Lloyd's Pension Scheme. On an IAS 19 'Employee Benefits' valuation basis, the pension scheme liability as at 30 June 2006 has reduced to £38.9m (30 June 2005: £51.7m; 31 December 2005: £52.2m) before the allowance of deferred tax. An actuarial gain of £13.6m has been recognised in the six months ended 30 June 2006 (30 June 2005: actuarial loss £2.9m; full year to 31 December 2005: actuarial loss £2.4m) principally reflecting an increase of 0.5% in the rate used to discount the scheme's liabilities. The discount rate is based on corporate bond yields.

A further actuarial gain of £0.5m (30 June 2005: £nil; full year to 31 December 2005: £0.4m) has been recognised in respect of the group's interest in associates.

7 Syndicate loans

The syndicate loans bear interest payable annually at a rate equal to specified market indices which record the performance of short-dated fixed interest securities. The principal will ordinarily be repaid on the closure of the syndicate year of account to which the loans relate. Both the payment of annual interest and repayment of principal may be deferred at the discretion of the Council of Lloyd's. As a result, syndicate loans are treated as equity because there are no fixed repayment dates. Current expectations are that interest will be paid annually and the principal will be repaid at the closure of the relevant syndicate year of account. The value of the syndicate loans is shown in the table below:

	30 June 2006 £000	30 June 2005 £000	31 December 2005 (Audited) £000
2005 syndicate loans	104,724	105,184	106,834
2006 syndicate loans	109,885	–	–
	214,609	105,184	106,834

Interest is accounted for when the Council of Lloyd's formally approves interest payments to be made. Consequently, as at 30 June 2006, interest of £1.2m (30 June 2005: £2.1m; 31 December 2005: £3.8m) has not been recognised in these group interim financial statements. On 5 April 2006, the Council of Lloyd's approved the distribution of £4.4m in respect of syndicate loans collected on 1 April 2005. The payment of syndicate loan interest, which took place on 11 April 2006, has been recognised directly in equity and is shown in the reconciliation of movement in equity (see note 8).

8 Reconciliation of movement in equity	Note	Accumulated reserve £000	Syndicate loans £000	Revaluation reserve £000	Foreign currency translation reserve £000	Total equity £000
At 1 January 2005		680,232	–	9,710	59	690,001
Total recognised income and expense for the period		(53,611)	–	–	14	(53,597)
Receipt of syndicate loans	7	–	103,202	–	–	103,202
Revaluation of syndicate loans		(1,982)	1,982	–	–	–
At 30 June 2005		624,639	105,184	9,710	73	739,606
Total recognised income and expense for the period		24,610	–	–	(57)	24,553
Receipt of syndicate loans	7	–	409	–	–	409
Revaluation of syndicate loans		(1,241)	1,241	–	–	–
At 31 December 2005		648,008	106,834	9,710	16	764,568
Total recognised income and expense for the period		26,437	–	–	(53)	26,384
Receipt of syndicate loans	7	–	110,991	–	–	110,991
Payment of syndicate loan interest	7	(4,365)	–	–	–	(4,365)
Revaluation of syndicate loans		3,216	(3,216)	–	–	–
Tax on payment of syndicate loan interest		1,310	–	–	–	1,310
At 30 June 2006		674,606	214,609	9,710	(37)	898,888

9 Contingent liabilities

Note 29 on Page 132 of the Society of Lloyd's 2005 Annual Report provides details of the Society of Lloyd's contingent liabilities as at 31 December 2005. As at 30 June 2006, the amounts and nature of contingent liabilities were not significantly different from those at the year end except the claims disclosed at E of note 29 (in respect of the underwriting of insurance in Italy) have been settled and the following contingent liabilities arose:

- (a) Lloyd's has been joined to an action in New Jersey United States brought by two Lloyd's underwriters against a coverholder (and associated individuals) alleging that the coverholder issued policies outside the terms of a binding authority. Three of the defendants have joined Lloyd's to the proceedings alleging that Lloyd's has made false and defamatory statements against them in letters issued to producing brokers in July 2005. Lloyd's does not accept any liability in respect to this claim.
- (b) In the United States the dismissal of a complaint issued against Lloyd's and others on behalf of descendants of slaves in respect of the insurance of slaves as cargo is being appealed. Lloyd's does not accept any liability in respect of this action.

In respect of all contingent liabilities disclosed as at 31 December 2005 and 30 June 2006, 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.

The contingent liability disclosed at J of note 29, related to proceeds received from the sale of the Lloyd's Chatham building and site on 15 April 2005 being contingent on certain events which, if they occurred, would require repayment up to a maximum amount of £3.6m. In August 2006, £1.8m was paid to the purchaser as one of the events requiring repayment had occurred. This amount may be repaid to Lloyd's, in part or in full, depending upon planning consents obtained for the site by 24 April 2009. As a result, the provision for contingent sales proceeds has been increased by £0.5m to £1.8m (31 December 2005: £1.3m) in these group interim financial statements. A contingent liability of £1.8m remains but has not been provided for in these group interim financial statements as the Council believes any further repayment is unlikely to occur.

INDEPENDENT REVIEW REPORT TO THE SOCIETY OF LLOYD'S

Introduction

We have been instructed by the Council of Lloyd's on behalf of the Society of Lloyd's to review the financial information for the six months ended 30 June 2006 which comprises the group income statement, group changes in equity, group balance sheet, group cash flow statement, and the related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Society of Lloyd's in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" 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 Society of Lloyd's for our work, for this report, or for the conclusions we have formed.

Council of Lloyd's responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Council of Lloyd's. The Council of Lloyd's is responsible for preparing the interim report. This interim report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The accounting policies are consistent with those applied in preparing the preceding annual financial statements except where any changes and the reasons for them are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review 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 2006.

Ernst & Young LLP

Ernst & Young LLP
More London Place
London

26 September 2006



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.

