

SOCIETY OF LLOYD'S
GROUP INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008

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SOCIETY OF LLOYD'S GROUP INTERIM REVIEW



Today, we are releasing the Society of Lloyd's interim results. These only show the income and expenses of the Society itself, its subsidiaries and the Central Fund and do not reflect the results of the syndicates operating in the Lloyd's market. The interim results of the market, including the syndicate activity, will be released on 25 September 2008.

OPERATING REVIEW

STRATEGY

The Three-Year Plan 2008–2010, sets out the strategy to deliver Lloyd's vision to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks. The main priorities continue to be to work with managing agents to help manage the cycle; improve market access; and create an efficient, cost effective operating environment.

BRAZIL

On 17 April 2008, Lloyd's announced that it has received approval from the Superintendence of Private Insurance (SUSEP) to become the first admitted reinsurer in Brazil.

LEGISLATIVE REFORM ORDER

On 17 July 2008, HM Treasury laid before Parliament its draft Legislative Reform Order (LRO) to amend Lloyd's Act 1982 and an accompanying Explanatory Document. This follows the Government's consultation on the reforms that closed on 30 May 2008. As part of that consultation, an EGM of the members of Lloyd's was held on 21 May 2008 at which 99.14% of Lloyd's membership voted in favour of the proposals, an overwhelming endorsement in support of the Treasury's proposals to reform Lloyd's governance arrangements and improve access to the market. This will complement the market-related reforms that Lloyd's is already pursuing that are geared to maintaining the competitiveness of Lloyd's in the global marketplace.

Following its consultation process, the Government is proposing that all of the proposals in the LRO should be made. Details of the specific reforms are contained in the Explanatory Document of July 2008, which can be accessed on the HM Treasury website. The LRO will now be considered by Parliament in accordance with the procedures provided for in the Legislative & Regulatory Reform Act 2006.

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.

SOCIETY OF LLOYD'S GROUP INTERIM REVIEW CONTINUED

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.

On behalf of the Council of Lloyd's

LORD LEVENE OF PORTSOKEN, CHAIRMAN

29 July 2008

RICHARD WARD, CHIEF EXECUTIVE OFFICER

COUNCIL OF LLOYD'S STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties and the way in which they are managed are set out on page 38 of the Society of Lloyd's 2007 Annual Report under the heading 'Risk Management' within the strategic review. The principal risks and uncertainties have not changed materially since the date of that report.

COUNCIL OF LLOYD'S STATEMENT OF RESPONSIBILITIES

We confirm that to the best of our knowledge:

- The condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union;
- The Society of Lloyd's group interim review (constituting the interim management report) includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- The statement of principal risks and uncertainties is a fair review of the principal risks and uncertainties for the remaining six months of the financial year; and,
- The financial statements include a fair review of the related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Society during that period as well as any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

On behalf of the Council of Lloyd's

LORD LEVENE OF PORTSOKEN, CHAIRMAN

29 July 2008

RICHARD WARD, CHIEF EXECUTIVE OFFICER

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 – other insurance activities		375,531 31,766	396,185 –	387,440 381
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 – other insurance activities		375,531 79,214	396,185 12,400	387,440 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 15.

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:

- 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.
- 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.
- 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	Note	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

	Note	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
A. Information by business segment continued				
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:

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
B. Net central assets			
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

	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Full year 2007 (Audited) £000
(a) Analysis of tax charge			
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

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.

