SOCIETY OF LLOYD'S

IFRS TRANSITION DOCUMENT

BASIS OF PREPARATION

All listed European Union (EU) groups are required to prepare consolidated financial statements that comply with EU endorsed International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. Following the issue of subordinated loan notes by the Society which are listed on the London Stock Exchange, the Society has been admitted to trading on a regulated market in the EU and, as a matter of best practice, has decided to adopt IFRS from 1 January 2005. The first full reporting period for the Society is 31 December 2005, and interim financial statements have been prepared at 30 June 2005 in accordance with IFRS rather than with UK Generally Accepted Accounting Principles (UK GAAP). As part of the process of moving to reporting under IFRS comparative information has been restated.

The Society has adopted all existing IFRS and has anticipated that the amendments to IAS 19 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosure', which has yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements. This standard is still subject to change and to the issue of additional interpretation and therefore cannot be determined with certainty. Accordingly, the accounting policies for the year ended 31 December 2005 will be determined only when the first IFRS financial statements are prepared as at that date.

The consolidated financial statements of the Society of Lloyd's (the 'Society') comprise the financial statements of the Corporation of Lloyd's and all its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates as at each balance sheet date.

The provisional accounting policies expected to be applied from 1 January 2005 and adopted in the preparation of the restated IFRS opening balance sheet have been included on pages 11 to 15.

The restated preliminary IFRS opening balance sheet has been audited by Ernst & Young LLP and a copy of their report is included on page 16.

TRANSITIONAL ARRANGEMENTS UPON FIRST TIME ADOPTION OF IFRS

When preparing the Society's IFRS balance sheet at 1 January 2004, the date of transition, the following optional exemptions, provided by IFRS 1 'First-time Adoption of International Financial Reporting Standards' from full retrospective application of IFRS accounting policies, have been adopted:

(a) Investments in associates
The provisions of IFRS 3 'Business combinations' have been applied from 1 January 2004. The net carrying value of goodwill at 31 December 2003 under the previous accounting policies has been deemed to be the cost at 1 January 2004.

(b) Recognition of other financial assets
In recognising certain assets the Society has applied IFRS 1 which allows the recognition of assets previously derecognised where the information needed to apply IAS 39 'Financial Instruments: Recognition and Measurement' was available at the time of initially accounting for the derecognition.

(c) Cumulative translation differences
Cumulative translation differences arising on consolidation of foreign operations – IAS 21 'The effects of changes in foreign exchange rates' requires such differences to be held in a separate reserve, rather than included in the profit and loss reserve under UK GAAP. This reserve has been deemed to be nil on 1 January 2004.

(d) Comparatives
The Society has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32 'Financial Instruments: Disclosure and Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts'.

(e) Estimates
Where estimates had previously been made under UK GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e. judgements affecting the Society's opening balance sheet have not been revisited for the benefit of hindsight).

CONSOLIDATED BALANCE SHEET

as at 1 January 2004

	UK GAAP (AS PREVIOUSLY REPORTED)							
	Corporation of Lloyd's & Subsidiaries 1 January 2004 £000	Central Fund 1 January 2004 £000	Insurance Related Subsidiaries 1 January 2004 £000	**Society Total 1 January 2004 £000**	**UK GAAP Adjustments 1 January 2004 £000**	**Adjusted UK GAAP Total 1 January 2004 £000**	**IFRS Adjustments 1 January 2004 £000**	**Society Total 1 January 2004 £000**
ASSETS								
Property, plant and equipment	15,023	–	11	**15,034**	**–**	**15,034**	**(169)**	**14,865**
Intangible assets	–	–	–	**–**	**–**	**–**	**169**	**169**
Lloyd's Collection	6,913	–	–	**6,913**	**–**	**6,913**	**–**	**6,913**
Deferred income tax asset	2,668	6,840	6	**9,514**	**–**	**9,514**	**94,173**	**103,687**
Investment in associates	6,332	–	–	**6,332**	**–**	**6,332**	**(910)**	**5,422**
Reinsurance assets	–	–	800,420	**800,420**	**(126,513)**	**673,907**	**–**	**673,907**
Loans receivable	–	–	–	**–**	**–**	**–**	**63,537**	**63,537**
Financial investments	116,883	490,989	37,793	**645,665**	**(155)**	**645,510**	**(149,167)**	**496,343**
Pension asset	24,318	–	–	**24,318**	**–**	**24,318**	**(24,318)**	**–**
Inventories	467	–	–	**467**	**–**	**467**	**–**	**467**
Trade and other receivables	45,798	329,588	95	**375,481**	**(11,601)**	**363,880**	**(326,538)**	**37,342**
Prepayments and accrued income	15,543	21,925	976	**38,444**	**–**	**38,444**	**–**	**38,444**
Group income tax relief receivable	3,664	–	–	**3,664**	**(3,664)**	**–**	**–**	**–**
Income tax receivable	9	–	–	**9**	**–**	**9**	**–**	**9**
Forward currency contracts	3,233	–	–	**3,233**	**–**	**3,233**	**–**	**3,233**
Cash and cash equivalents	47,034	48	22,921	**70,003**	**–**	**70,003**	**170,121**	**240,124**
Total assets	287,885	849,390	862,222	**1,999,497**	**(141,933)**	**1,857,564**	**(173,102)**	**1,684,462**
EQUITY AND LIABILITIES								
Equity								
Accumulated reserve	63,452	711,045	28,703	**803,200**	**204**	**803,404**	**(244,966)**	**558,438**
Revaluation reserve	6,913	–	–	**6,913**	**–**	**6,913**	**–**	**6,913**
	70,365	711,045	28,703	**810,113**	**204**	**810,317**	**(244,966)**	**565,351**
Liabilities								
Insurance contract liabilities	–	–	824,823	**824,823**	**(126,513)**	**698,310**	**–**	**698,310**
Pension liability	–	–	–	**–**	**–**	**–**	**55,000**	**55,000**
Provisions	7,396	79,829	–	**87,225**	**–**	**87,225**	**17,884**	**105,109**
Trade and other payables	52,428	5,742	8,166	**66,336**	**(11,850)**	**54,486**	**(1,735)**	**52,751**
Accruals and deferred income	46,698	11,945	357	**59,000**	**(111)**	**58,889**	**715**	**59,604**
Loans funding statutory insurance deposits	107,871	–	–	**107,871**	**–**	**107,871**	**–**	**107,871**
Forward currency contracts	3,127	–	–	**3,127**	**–**	**3,127**	**–**	**3,127**
Group income tax relief payable	–	3,659	4	**3,663**	**(3,663)**	**–**	**–**	**–**
Income tax payable	–	37,170	169	**37,339**	**–**	**37,339**	**–**	**37,339**
Total liabilities	217,520	138,345	833,519	**1,189,384**	**(142,137)**	**1,047,247**	**71,864**	**1,119,111**
Total equity and liabilities	287,885	849,390	862,222	**1,999,497**	**(141,933)**	**1,857,564**	**(173,102)**	**1,684,462**

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2004

	UK GAAP (AS PREVIOUSLY REPORTED)							
	Corporation of Lloyd's & Subsidiaries 2004 £000	Central Fund 2004 £000	Insurance Related Subsidiaries 2004 £000	**Society Total 2004 £000**	**UK GAAP Adjustments 2004 £000**	**Adjusted UK GAAP Total 2004 £000**	**IFRS Adjustments 2004 £000**	**Society Total 2004 £000**
Continuing operations								
Operating income	180,453	215,588	–	**396,041**	**(2,784)**	**393,257**	**(4,455)**	**388,802**
General insurance net premium income	–	–	3,428	**3,428**	**–**	**3,428**	**–**	**3,428**
Total income	180,453	215,588	3,428	**399,469**	**(2,784)**	**396,685**	**(4,455)**	**392,230**
Central Fund claims and provisions	–	(135,493)	–	**(135,493)**	**–**	**(135,493)**	**9,953**	**(125,540)**
Other operating expenses	(160,742)	(337,205)	(712)	**(498,659)**	**2,834**	**(495,825)**	**322,409**	**(173,416)**
General insurance claims incurred	–	–	4,318	**4,318**	**–**	**4,318**	**–**	**4,318**
Operating surplus/(deficit)	19,711	(257,110)	7,034	**(230,365)**	**50**	**(230,315)**	**327,907**	**97,592**
Profit on sale of Lloyd's 1958 building	23,638	–	–	**23,638**	**–**	**23,638**	**–**	**23,638**
Surplus/(deficit) from continuing operations	43,349	(257,110)	7,034	**(206,727)**	**50**	**(206,677)**	**327,907**	**121,230**
Finance costs	(501)	(6,676)	–	**(7,177)**	**–**	**(7,177)**	**–**	**(7,177)**
Finance income	11,844	35,843	1,684	**49,371**	**(7,490)**	**41,881**	**3,994**	**45,875**
Share of profits of associates	1,861	–	–	**1,861**	**–**	**1,861**	**(266)**	**1,595**
Surplus/(deficit) before tax	56,553	(227,943)	8,718	**(162,672)**	**(7,440)**	**(170,112)**	**331,635**	**161,523**
Income tax (charge)/credit	(7,942)	72,688	(2,821)	**61,925**	**–**	**61,925**	**(100,884)**	**(38,959)**
Surplus/(deficit) for the year	48,611	(155,255)	5,897	**(100,747)**	**(7,440)**	**(108,187)**	**230,751**	**122,564**
Ordinary dividends *(for information only)*	–	–	(7,490)	**(7,490)**	**7,490**	**–**	**–**	**–**
Surplus/(deficit) for the year	48,611	(155,255)	(1,593)	**(108,237)**	**50**	**(108,187)**	**230,751**	**122,564**

CONSOLIDATED CHANGES IN EQUITY

for the year ended 31 December 2004

Statement of recognised income and expense	Society Total 2004 £000
Fair value revaluation of the Lloyd's Collection	**2,797**
Exchange difference on translating foreign operations	**59**
Actuarial loss on pension liability	**(1,100)**
Tax on items taken directly to equity	**330**
Net income and expense recognised directly in equity	**2,086**
Surplus for the year	**122,564**
Total recognised income and expense for the year	**124,650**

Reconciliation of movement in equity	Accumulated reserve £000	Revaluation reserve £000	Foreign currency translation reserve £000	Society Total equity 2004 £000
At 1 January 2004				
UK GAAP basis	803,404	6,913	–	**810,317**
Changes on adopting IFRS	(244,966)	–	–	**(244,966)**
At 1 January 2004 (restated)	558,438	6,913	–	**565,351**
Total recognised income and expense for the year	121,794	2,797	59	**124,650**
At 31 December 2004	680,232	9,710	59	**690,001**

CONSOLIDATED BALANCE SHEET

as at 31 December 2004

	UK GAAP (AS PREVIOUSLY REPORTED)							
	Corporation of Lloyd's & Subsidiaries 2004 £000	Central Fund 2004 £000	Insurance Related Subsidiaries 2004 £000	**Society Total 2004 £000**	**UK GAAP Adjustments 2004 £000**	**Adjusted UK GAAP Total 2004 £000**	**IFRS Adjustments 2004 £000**	**Society Total 2004 £000**
ASSETS								
Property, plant and equipment	6,399	–	–	**6,399**	**–**	**6,399**	**(275)**	**6,124**
Intangible assets	–	–	–	**–**	**–**	**–**	**275**	**275**
Lloyd's Collection	9,710	–	–	**9,710**	**–**	**9,710**	**–**	**9,710**
Deferred income tax asset	2,756	2,915	1,324	**6,995**	**–**	**6,995**	**(6,380)**	**615**
Investment in associates	4,459	–	–	**4,459**	**–**	**4,459**	**(1,176)**	**3,283**
Reinsurance assets	–	–	600,048	**600,048**	**(57,527)**	**542,521**	**–**	**542,521**
Loans receivable	–	–	–	**–**	**–**	**–**	**63,269**	**63,269**
Financial investments	159,173	1,037,566	40,316	**1,237,055**	**(90)**	**1,236,965**	**(83,509)**	**1,153,456**
Pension asset	28,806	–	–	**28,806**	**–**	**28,806**	**(28,806)**	**–**
Inventories	461	–	–	**461**	**–**	**461**	**–**	**461**
Trade and other receivables	35,943	33,411	11	**69,365**	**(12,719)**	**56,646**	**–**	**56,646**
Prepayments and accrued income	10,801	7,766	501	**19,068**	**–**	**19,068**	**–**	**19,068**
Group income tax relief receivable	–	7,366	–	**7,366**	**(7,366)**	**–**	**–**	**–**
Income tax receivable	–	84,654	–	**84,654**	**–**	**84,654**	**–**	**84,654**
Forward currency contracts	2,256	–	–	**2,256**	**–**	**2,256**	**–**	**2,256**
Assets classified as held for sale	8,152	–	–	**8,152**	**–**	**8,152**	**63**	**8,215**
Cash and cash equivalents	65,903	16	11,366	**77,285**	**–**	**77,285**	**104,160**	**181,445**
Total assets	334,819	1,173,694	653,566	**2,162,079**	**(77,702)**	**2,084,377**	**47,621**	**2,131,998**
EQUITY AND LIABILITIES								
Equity								
Accumulated reserve	112,172	555,790	27,110	**695,072**	**254**	**695,326**	**(15,094)**	**680,232**
Revaluation reserve	9,710	–	–	**9,710**	**–**	**9,710**	**–**	**9,710**
Foreign currency translation reserve	–	–	–	**–**	**–**	**–**	**59**	**59**
	121,882	555,790	27,110	**704,782**	**254**	**705,036**	**(15,035)**	**690,001**
Liabilities								
Subordinated loan notes	–	506,439	–	**506,439**	**–**	**506,439**	**–**	**506,439**
Insurance contract liabilities	–	–	615,011	**615,011**	**(57,527)**	**557,484**	**–**	**557,484**
Pension liability	–	–	–	**–**	**–**	**–**	**53,700**	**53,700**
Provisions	6,653	91,904	–	**98,557**	**–**	**98,557**	**10,028**	**108,585**
Trade and other payables	61,798	9,690	8,162	**79,650**	**(13,018)**	**66,632**	**(1,702)**	**64,930**
Accruals and deferred income	31,403	9,871	271	**41,545**	**(46)**	**41,499**	**630**	**42,129**
Loans funding statutory insurance deposits	106,831	–	–	**106,831**	**–**	**106,831**	**–**	**106,831**
Forward currency contracts	1,899	–	–	**1,899**	**–**	**1,899**	**–**	**1,899**
Group income tax relief payable	4,353	–	3,012	**7,365**	**(7,365)**	**–**	**–**	**–**
Total liabilities	212,937	617,904	626,456	**1,457,297**	**(77,956)**	**1,379,341**	**62,656**	**1,441,997**
Total equity and liabilities	334,819	1,173,694	653,566	**2,162,079**	**(77,702)**	**2,084,377**	**47,621**	**2,131,998**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	UK GAAP (AS PREVIOUSLY REPORTED)							
	Corporation of Lloyd's & Subsidiaries 2004 £000	Central Fund 2004 £000	Insurance Related Subsidiaries 2004 £000	**Society Total 2004 £000**	**UK GAAP Adjustments 2004 £000**	**Adjusted UK GAAP Total 2004 £000**	**IFRS Adjustments 2004 £000**	**Society Total 2004 £000**
Cash flow from operating activities								
Operating surplus/(deficit)	19,711	(257,110)	7,034	**(230,365)**	**50**	**(230,315)**	**327,907**	**97,592**
Central Fund claims and provisions	–	135,493	–	**135,493**	**–**	**135,493**	**(9,953)**	**125,540**
Operating surplus/(deficit) before Central Fund claims and provisions	19,711	(121,617)	7,034	**(94,872)**	**50**	**(94,822)**	**317,954**	**223,132**
Adjustments for:								
Depreciation	2,578	–	11	**2,589**	**–**	**2,589**	**(63)**	**2,526**
Profit on sale of fixed assets	(55)	–	–	**(55)**	**–**	**(55)**	**–**	**(55)**
Premium levy collection	19,641	–	–	**19,641**	**–**	**19,641**	**–**	**19,641**
Transfers to Lloyd's New Central Fund	(14,571)	–	–	**(14,571)**	**14,571**	**–**	**–**	**–**
Operating surplus/(deficit) before working capital changes and claims paid	27,304	(121,617)	7,045	**(87,268)**	**14,621**	**(72,647)**	**317,891**	**245,244**
(Increase)/decrease in receivables	(8,511)	338,741	559	**330,789**	**(64,231)**	**266,558**	**(315,169)**	**(48,611)**
Decrease in inventories	6	–	–	**6**	**–**	**6**	**–**	**6**
Increase/(decrease) in payables	13,948	(3,096)	(9,529)	**1,323**	**49,610**	**50,933**	**(2,452)**	**48,481**
(Decrease)/increase in provisions other than for Central Fund claims	(634)	–	–	**(634)**	**–**	**(634)**	**32**	**(602)**
Cash generated from operations before claims paid	32,113	214,028	(1,925)	**244,216**	**–**	**244,216**	**302**	**244,518**
Claims paid in respect of corporate members	–	(137,411)	–	**(137,411)**	**–**	**(137,411)**	**–**	**(137,411)**
Claims paid in respect of individual members	–	(2,677)	–	**(2,677)**	**–**	**(2,677)**	**–**	**(2,677)**
Cash generated from operations	32,113	73,940	(1,925)	**104,128**	**–**	**104,128**	**302**	**104,430**
Income taxes paid	(13)	(56,236)	(1,301)	**(57,550)**	**–**	**(57,550)**	**–**	**(57,550)**
Net cash from operating activities	32,100	17,704	(3,226)	**46,578**	**–**	**46,578**	**302**	**46,880**
Cash flows from investing activities								
Purchase of property, plant and equipment	(2,120)	–	–	**(2,120)**	**–**	**(2,120)**	**–**	**(2,120)**
Proceeds from sale of equipment	125	–	–	**125**	**–**	**125**	**–**	**125**
Proceeds from sale of buildings	23,638	–	–	**23,638**	**–**	**23,638**	**–**	**23,638**
Purchase of other financial investments	(45,167)	(532,240)	(3,687)	**(581,094)**	**–**	**(581,094)**	**(65,961)**	**(647,055)**
Dividends received from associates	3,734	–	–	**3,734**	**–**	**3,734**	**–**	**3,734**
Dividends and interest received	14,686	9,788	2,968	**27,442**	**(7,490)**	**19,952**	**–**	**19,952**
Net cash used in investing activities	(5,104)	(522,452)	(719)	**(528,275)**	**(7,490)**	**(535,765)**	**(65,961)**	**(601,726)**
Cash flows from financing activities								
Interest paid	(523)	–	–	**(523)**	**–**	**(523)**	**–**	**(523)**
Decrease in borrowings for statutory insurance deposits	(7,604)	–	–	**(7,604)**	**–**	**(7,604)**	**–**	**(7,604)**
Issue of subordinated loan notes	–	504,463	–	**504,463**	**–**	**504,463**	**–**	**504,463**
Dividends paid to parent (for information only)	–	–	(7,490)	**(7,490)**	**7,490**	**–**	**–**	**–**
Net proceeds from financing activities	(8,127)	504,463	(7,490)	**488,846**	**7,490**	**496,336**	**–**	**496,336**
Net (decrease)/increase in cash and cash equivalents	18,869	(285)	(11,435)	**7,149**	**–**	**7,149**	**(65,659)**	**(58,510)**
Other movements	–	253	(120)	**133**	**–**	**133**	**(302)**	**(169)**
Cash and cash equivalents at 1 January	47,034	48	22,921	**70,003**	**–**	**70,003**	**170,121**	**240,124**
Cash and cash equivalents at 31 December	65,903	16	11,366	**77,285**	**–**	**77,285**	**104,160**	**181,445**

NOTES SUPPORTING THE RESTATEMENT OF FINANCIAL INFORMATION AT 1 JANUARY 2004 AND 31 DECEMBER 2004 AS A RESULT OF THE TRANSITION TO IFRS

The restated consolidated income statement, consolidated changes in equity, consolidated balance sheet and the consolidated cash flow statement have been presented in a format consistent with IFRS. This information has been prepared on the basis of the Society's expectation of the standards that will be applicable at 31 December 2005.

The material adjustments to accumulated reserves between UK GAAP and IFRS are as follows:

	Note	1 January 2004 £000	31 December 2004 £000
Corporation of Lloyd's and subsidiaries		**70,365**	**121,882**
Central Fund		**711,045**	**555,790**
Insurance related subsidiaries		**28,703**	**27,110**
Opening accumulated reserves (as previously reported under UK GAAP)		**810,113**	**704,782**
Principal UK GAAP adjustments			
First time preparation of consolidated financial statements	1	204	254
Restated opening accumulated reserves (UK GAAP basis)		**810,317**	**705,036**
Principal adjustments on adopting IFRS			
Investment valuation (move from mid to bid prices)	2	(46)	(349)
Central Fund supporting commitments	3	(19,312)	(11,315)
Recognition of loans receivable under hardship agreements	4	63,537	63,269
Recognition of other financial assets	5	21,000	21,000
Employee benefits	6		
– elimination of SSAP24 debtor		(24,318)	(28,806)
– recognition of pension deficit under IAS 19		(55,000)	(53,700)
– long term incentive plan (LTIP) accrual basis change		3,163	2,989
– other employee benefits		(715)	(630)
Investment in associates	7	(910)	(1,176)
Trade and other receivables (provision against Central Fund insurance claim debtor)	8	(326,538)	–
Property, plant and equipment	9	–	63
Deferred tax adjustments on the above items	10	94,173	(6,380)
Restated opening accumulated reserves (IFRS basis)		**565,351**	**690,001**
Decrease in accumulated reserves as a result of adopting IFRS		**(244,966)**	**(15,035)**

UK GAAP adjustments

The transition from UK GAAP to IFRS has resulted in an increase to accumulated reserves of £0.2m at 1 January 2004 and £0.3m at 31 December 2004. Besides accumulated reserve adjustments, certain items within the consolidated balance sheet have been reclassified in the transition.

Note 1: First time preparation of consolidated financial statements and adjustments for different accounting periods

First time preparation of the consolidated financial statements requires adjustments to be made in respect of inter-group transactions and other minor items.

Lioncover Insurance Company Limited has a reporting year end of 31 March. Adjustments totalling £126.5m at 1 January 2004 and £57.5m at 31 December 2004 have been made to both the reinsurance assets and insurance contract liabilities categories in the consolidated balance sheet. This reflects the claims settled between 1 April and 31 December and aligns the reporting periods.

IFRS adjustments

The implementation of IFRS has resulted in a reduction in accumulated reserves of £245.0m at 1 January 2004 and £15.0m at 31 December 2004. A foreign currency translation reserve was created on 1 January 2004 and the balance as at 31 December 2004 was £0.1m. Besides accumulated reserve adjustments, certain items within the consolidated balance sheet have been reclassified in the transition.

Further information in respect of the major adjustments are detailed in the following notes:

Note 2: Investments and financial instruments
Investment classification and valuation methods have been revised by adopting IFRS. As a result of applying IAS 39, the Society now carries all investments in debt and equity securities at fair values based on bid prices rather than mid-market prices.

IAS 39 requires the classification of financial instruments into different types for which the accounting requirement is different. The Society has classified its financial instruments as:

- Recoverable Central Fund loans made to hardship Names are classified as loans and receivables and described as loans receivable in the consolidated balance sheet.

- Bank deposits, principally comprising funds held with banks and other financial institutions, are classified as loans and receivables and are mainly included in cash and cash equivalents in the consolidated balance sheet.

- Investments (other than interests in associates and bank deposits) are classified as fair value through profit or loss and are included in financial investments in the consolidated balance sheet.

- Statutory insurance deposits are classified as fair value through profit or loss and are included in financial investments in the consolidated balance sheet.

- Subordinated loan notes are classified as other financial liabilities.

- Derivatives, comprising forward foreign exchange contracts, are classified as held for trading.

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- Loans and receivables and other financial liabilities are held at amortised cost or at present day values of amounts ultimately expected to be realised and are subject to impairment reviews.

- Investments designated as fair value through profit or loss are held at fair value. Changes in fair value are included in the consolidated income statement.

- Held for trading instruments are held at fair value. Changes in fair value are included in the consolidated income statement.

Note 3: Central Fund supporting commitments
For corporate members in provisional liquidation, the Council provides 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 as at 1 January 2004 of £19.3m and £11.3m as at 31 December 2004 is reflected in the IFRS statements.

Note 4: Recognition of loans receivable under hardship agreements
Recoverable Central Fund loans made to hardship Names, are recognised at present day values of amounts ultimately expected to be realised and are included as loans receivable in the IFRS statements. In the UK GAAP financial statements, no value for the recovery of these amounts had been reflected as these assets were not readily realisable.

The recoverability of these loans receivable will be subject to a regular impairment review based on the value of the assets pledged under hardship agreements and an estimate of the length of time before charges may be enforced. The value of these loans receivable was £63.5m as at 1 January 2004 and £63.3m as at 31 December 2004.

Note 5: Recognition of other financial assets

Two security deposits provided by the Lloyd's Central Fund to Tutelle Limited and Lioncover Insurance Company Limited, as disclosed in notes 20 and 21 of the 2004 Lloyd's Central Fund financial statements, had not been previously recognised as assets under UK GAAP. The deposits meet the criteria of assets under IFRS and £21.0m as at 1 January 2004 and 31 December 2004 has been recognised as financial investments. Interest on the deposits is paid to the Lloyd's Central Fund.

Note 6: Employee benefits

(i) Pension scheme

The Corporation of Lloyd's operates a defined benefit pension scheme with assets held in a separately administered fund. Previously under UK GAAP, the cost of providing pension benefits was expensed using actuarial valuation methods which gave a substantially even charge over the expected service lives of employees and resulted in either a prepayment or an accrual to the extent that the charge did not equate to the cash contributions made into the scheme. However, under IAS 19, the projected benefit obligation is matched against the fair value of the underlying assets in determining the pension expense for the year. Any pension asset or obligation must be recorded in the balance sheet. The Society has not applied the 'corridor approach' in valuing pension deficits in the scheme.

This change in accounting policy has eliminated SSAP 24 prepayments and recognised a pension deficit calculated in accordance with IAS 19. The effect is shown below:

	1 Jan 2004 £000	31 Dec 2004 £000
Removal of SSAP 24 pension scheme prepayment	(24,318)	(28,806)
Recognition of IAS 19 pension deficit	(55,000)	(53,700)
Effect on Society's net asset position before taxation	(79,318)	(82,506)

(ii) Long term incentive plan (LTIP)

A significant employee benefit provided is participation in the long term incentive plan (LTIP) for certain individuals. Under UK GAAP, the LTIP provision represented the estimate of future awards, payable over three years, in respect of past service and was expensed immediately. IAS 19 requires that the LTIP liability should be accrued and expensed over the vesting period. The change increases reserves by £3.2m as at 1 January 2004 and £3.0m as at 31 December 2004.

(iii) Other employee benefits

IAS 19 requires that provision is made for long term disability payments to staff members and that short term accumulated absences, which includes holiday pay, are recognised. An accrual of £0.7m as at 1 January 2004 and £0.6m as at 31 December 2004 has been included in these financial statements.

Note 7: Investment in associates

The Society's investment in associates has been restated under IFRS to reflect group accounting policies, principally relating to changes in accounting for employee benefits. The effect is to reduce the carrying value of the investment by £0.9m as at 1 January 2004 and £1.2m as at 31 December 2004.

Note 8: Trade and other receivables

As at 1 January 2004, under UK GAAP the Lloyd's Central Fund included an insurance claim receivable of £326.5m. In the restated IFRS balance sheet, at that date, no value has been attributed to the receivable reflecting the inherent uncertainty at that time of the outcome of the arbitration proceedings which were described in the 2004 financial statements of the Lloyd's Central Fund.

Under UK GAAP, £324.6m was written off following the arbitration settlement in the 2004 financial statements. This item is not included in the 2004 IFRS consolidated income statement as it is reflected in the restated IFRS balance sheet at 1 January 2004.

Note 9: Property, plant and equipment

As a result of adopting IFRS 5 'Non-current assets held for sale and discontinued operations', non-current assets held for sale are separately disclosed in the restated IFRS balance sheet as at 31 December 2004. This standard applies where the carrying value of the asset will be recovered through a sale transaction rather than continued use. This applied to the decision taken in October 2004 to sell the Lloyd's Chatham building. The book value of the asset was £8.2m and this has been reclassified on the consolidated balance sheet as at 31 December 2004. Under IFRS 5 depreciation ceases to be charged upon designating an asset as held for sale. As a consequence, a depreciation adjustment of £63k has been credited to the consolidated income statement which, under a UK GAAP basis, continued to be charged to the revenue account.

Note 10: Deferred taxes

Under IAS 12 'Income Taxes' deferred taxes are provided under the liability method for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the consolidated balance sheet and its value for tax purposes. The changes to deferred tax arise from changes to the valuation of the Society's assets and liabilities under IFRS. As at 1 January 2004 deferred tax assets increase by £94.2m and as at 31 December 2004 reduce by £6.4m.

Note 11: Cash

IFRS requires a number of presentational changes to the disclosure of cash and cash equivalents and financial investments. These changes do not impact on the Society's accumulated reserves. Total assets of £170.1m as at 1 January 2004 and £104.2m as at 31 December 2004 previously treated as investments meet the definition of cash equivalents and therefore have been reclassified to 'cash and cash equivalents'.

Note 12: Other items

The other changes that arise as a result of the transition to IFRS are principally reclassifications and presentational changes. This includes the following items at 31 December 2004:

- Reclassify £0.3m (£0.2m at 1 January 2004) from property, plant and equipment to intangible assets to reflect capitalised system development software.

- Reclassify £1.7m (£1.7m at 1 January 2004) from trade and other payables to provisions to reflect the commitment under the Income and Housing Support Scheme.

Note 13: Explanation of material adjustments to the consolidated income statement for the year ended 31 December 2004

The material adjustments to the consolidated income statement arise from the accounting treatment of the settlement of the Central Fund arbitration dispute and the recognition of Central Fund supporting commitments and are disclosed in notes 3 and 8.

Note 14: Explanation of material reclassifications to the consolidated cash flow statement for the year ended 31 December 2004

There are no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP other than those arising from the IFRS reclassifications detailed in the notes above.

PRINCIPAL ACCOUNTING POLICIES

Accounting policies

The provisional accounting policies expected to be applied from 1 January 2005 and adopted in the preparation of the restated IFRS opening balance sheet are set out below.

Basis of consolidation

The consolidated financial statements of the Society of Lloyd's (the 'Society') comprise the financial statements of the Corporation of Lloyd's and all its subsidiaries, the Lloyd's Central Fund and the Society's interest in associates as at each balance sheet date.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company with the exception of Lioncover Insurance Company Limited (Lioncover) which has a reporting year of 31 March. This reporting date is the consequence of all Lioncover's reinsurance liabilities being reinsured with Equitas Reinsurance Limited (Equitas) and hence its alignment to Equitas' reporting year. Reinsurance contract assets and liabilities at 31 December have been adjusted to reflect claims settled from April to December.

The financial statements are prepared using consistent accounting policies.

All inter-group balances and transactions have been eliminated in full.

A Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight line basis on the following principal categories:

- Freehold buildings are depreciated over 60 years;
- Plant, vehicles and equipment are depreciated over 2 to 25 years according to the estimated life of the asset;
- Equipment on hire or lease is depreciated over the period of the lease;
- Land is not depreciated.

Costs incurred in acquiring and developing computer software are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable asset of value. Capitalised software is depreciated over 4 years.

B Lloyd's Collection

Lloyd's Collection represents various paintings, antiques and artefacts and are included at fair value. The collection is revalued at least every three years and any revaluation surplus or deficit is taken to the consolidated changes in equity and is reflected in the revaluation reserve.

C Financial instruments

The Society classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition as follows:

i) Financial assets and liabilities at fair value through profit or loss (including derivatives held for trading)

Financial assets and liabilities at fair value through profit or loss include financial instruments held for trading and those assets designated at fair value through profit or loss. A financial instrument is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term or if it is a financial asset or liability so designated by management on initial recognition. Derivatives are included as held for trading.

C Financial instruments continued

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a debtor with no intention of trading the receivable.

iii) Other financial liabilities

Other financial liabilities which include the subordinated loan notes are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in the consolidated income statement in the period in which they arise. When financial assets and liabilities are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated income statement. Loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortised cost using the effective interest method.

The Society assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Purchases and sales of investments are recognised on the settlement date. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership.

iv) Non-hedging derivatives

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement. The Society does not consider that it meets the strict hedging requirements under IFRS.

v) Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Society is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date.

The fair value of forward foreign exchange contracts is determined using spot amortised exchange rates at the balance sheet date.

The nominal values less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

D Insurance contracts (liabilities and reinsurance)

In accordance with Phase I of IFRS 4 'Insurance contracts', the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. This includes the application of the SORP on accounting for insurance business issued by the Association of British Insurers (ABI) in November 2003 (and updated June 2005).

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts.

E Goodwill on associates

Goodwill represents the excess of the cost of the purchase consideration for the interest in an associate over the fair value of the net separable assets acquired.

Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

F Inventories

Inventories are stated at the lower of cost and net realisable value.

G Employee benefits

The Society accounts for pensions and similar benefits (principally income protection due to ill health) under IAS 19 'Employee benefits'. The Corporation of Lloyd's operates a defined benefit pension scheme in which obligations are measured at discounted present value while scheme assets are recorded at fair value. The operating and financing income and costs of the scheme are recognised in the consolidated income statement. Service costs and financing income and costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the period in which they arise in the consolidated changes in equity. Discretionary awards, when in payment are recognised when awarded.

Payments to separately administered defined contribution schemes are charged to the consolidated income statement as they fall due. Entitlements to payments to Funded Unapproved Retirement Benefits Schemes are recognised when the obligations to make the payments are incurred.

H Loans receivable

Recoverable Central Fund loans made to hardship Names are recognised at present day values of amounts ultimately expected to be realised and are subject to impairment reviews.

I Taxation

Corporation tax on the surplus or deficit for the periods presented comprises current and deferred tax. Corporation and income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

J Subordinated loan notes

Subordinated loan notes are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, the loan notes are subsequently recorded at amortised cost using the effective interest rate over the period to the earliest option date. Amortised cost is calculated by taking into account issue costs and issue discount.

K Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash comprises cash in hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

L Income recognition

Income, which is stated net of value added tax and local premium taxes in connection with overseas underwriting activities, comprises the fair value of amounts invoiced. Where the impact of discounting to present value is significant, income is recognised at present value. Income is recognised as follows:

i) Members' subscriptions, market charges and other income

Members' subscriptions, market charges and other income are recognised in the period to which they relate.

L Income recognition continued

ii) Central Fund contributions

Central Fund contributions from members underwriting in the year are recognised in full when they fall due to be received.

iii) Interest income

Interest receivable is recognised in the consolidated income statement on a time proportion basis using the effective interest method. Any unwinding of discount is recognised as interest income.

iv) Dividend income

Dividend income from equity investments is included in the consolidated income statement on the ex-dividend date.

M Insurance premiums

Premiums written represent premiums on business incepting during the year together with adjustments for premiums written in previous accounting periods. Premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

N Insurance claims and recoveries

Claims incurred in insurance related activities consist of claims and claims handling expenses paid during the year together with the movement in outstanding claims. Full provision is made on the basis of available information. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between the provision and subsequent settlements are reflected within the financial statements of later years.

O Central Fund claims and provisions

Central Fund claims and provisions (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 corporate members in provisional liquidation, the Council provides 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 is included within provisions in the financial statements and changes during the period are reflected in the consolidated income statement.

Recoveries in respect of the undertakings previously given are credited to the consolidated income statement when contractually committed to be received.

P Foreign currency and derivative instruments

(i) Functional and presentational currency

The consolidated financial statements are presented in sterling, which is the Society's functional and presentation currency. Items included in the financial statements of each of the Society's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the consolidated income statement.

Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either the consolidated changes in equity or the consolidated income statement as appropriate.

The results and financial position of overseas Society entities are translated into sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of that balance sheet;
- Income and expenses are translated at the average exchange rate for the period;
- All resulting exchange differences are recognised as a separate component of equity.

P Foreign currency and derivative instruments continued

The Society enters into forward currency contracts to manage exposures to fluctuation in foreign exchange rates, and to provide a service to the Lloyd's market. Where contracts are entered into to cover foreign exchange exposure contracted rates are used for balance sheet valuation purposes. Where contracts are entered into to provide a service to the Lloyd's market, these are marked-to-market at the year end closing rate. Where gains and losses are not expected to be refunded to or recovered from the Lloyd's market, these amounts are taken to the consolidated income statement.

There are no embedded derivatives separated from the host contract or that are designated as hedging instruments.

Q Leases

Payments made under operating leases are charged to the consolidated income statement on a straight line basis over the period of the lease.

Additional accounting policy applying after 1 January 2005:

R Syndicate loans

Syndicate loans are treated as equity as they have no fixed repayment date. Interest on these loans is accounted for when the Council of Lloyd's formally approves interest payments to be made.

INDEPENDENT AUDITORS' REPORT TO THE SOCIETY OF LLOYD'S ON THE PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

We have audited the accompanying preliminary International Financial Reporting Standards ('IFRS') consolidated financial statements of the Society of Lloyd's ('Lloyd's') for the year ended 31 December 2004 which comprise the opening IFRS consolidated balance sheet as at 1 January 2004, the consolidated income statement, the consolidated changes in equity and consolidated cash flow statement for the year ended 31 December 2004 and the consolidated balance sheet as at 31 December 2004, together with the related accounting policies note set out on pages 11 to 15.

This report is made solely to Lloyd's in accordance with our engagement letter dated 5 May 2005. Our audit work has been undertaken so that we might state to Lloyd's those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than Lloyd's for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council of Lloyd's and auditors

These preliminary IFRS consolidated financial statements are the responsibility of the Council of Lloyd's and have been prepared as part of Lloyd's conversion to IFRS. They have been prepared in accordance with the basis set out on page 1, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Our responsibility is to express an independent opinion on the preliminary IFRS consolidated financial statements based on our audit. We read the other information accompanying the preliminary IFRS consolidated financial statements and consider whether it is consistent with the preliminary IFRS consolidated financial statements. This other information comprises the description of significant changes in accounting polices on pages 11 to 15. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary opening balance sheet. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary consolidated IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the basis of preparation on page 1 explains why there is a possibility that the preliminary IFRS consolidated financial statements may require adjustment before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Society's financial position, results of operations and cash flows in accordance with IFRS.

Opinion

In our opinion, the preliminary IFRS consolidated financial statements for the year ended 31 December 2004 have been prepared, in all material respects, in accordance with the basis set out on page 1, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2005.

Ernst & Young LLP

Ernst & Young LLP
More London Place
London
5 October 2005