

Understanding risk.
Seeing the
opportunity.



Contents

Business review: Financial performance.....	3
Unaudited condensed interim consolidated financial statements.....	8
Statement of Directors' responsibilities.....	30
Independent review report.....	31
Glossary.....	32
Note regarding forward-looking statements.....	35

FINANCIAL HIGHLIGHTS

	Six months ended	Six months ended	Twelve months ended
	30 June 2020	30 June 2019	31 December 2019
Highlights (\$m)			
Gross premiums written	495.5	429.6	706.7
Net premiums written	282.5	222.6	424.7
Underwriting income	39.4	79.4	186.5
(Loss) profit before tax	(23.0)	40.5	119.5
Comprehensive (loss) income*	(14.7)	68.7	145.7
Financial ratios			
Total investment return including internal currency hedging	1.3%	3.2%	4.9%
Net loss ratio	57.4%	34.5%	30.8%
Combined ratio	106.9%	86.6%	80.9%

* These amount are attributable to Lancashire and exclude non-controlling interests.

Alex Maloney, Group Chief Executive Officer, commented:

“The global COVID-19 pandemic has presented a difficult set of threats to our health, our societies and our economies which remain both fluid and uncertain.

Once again, I would like to thank all of our people at Lancashire for showing their continued creativity and commitment, which has been so central to demonstrating a robust operational flexibility and resilience, since successfully moving to a home working environment in March 2020. This nimble “can do” culture within our business has given Lancashire the resources to continue to meet the needs of our clients and their brokers against this unprecedented backdrop. Our underlying business has performed very well during this period and we have been able to respond rapidly to take advantage of the improving (re)insurance market, generating a 15% increase in gross premiums written in the first half of the year.

In the face of the challenges generated by the COVID-19 pandemic to both sides of the balance sheet, there has been a retrenchment in (re)insurance market risk capital and capacity. In the year to 30 June 2020, we have witnessed double-digit percentage rate increases in many of our lines of business and accelerated rating dislocation in the catastrophe exposed reinsurance lines, resulting in rises in the range of 20%-30% for 1 June renewals in Florida. I believe that the economic fundamentals now dictate that this pricing trend is likely to strengthen throughout 2020 and into 2021 across a number of our business lines, and that current market conditions present an attractive opportunity for growth consistent with our strategy of deploying capital in line with the insurance market cycle.

We were pleased to have executed a successful equity capital raise as announced on 10 June 2020. We took this step to allow us to deploy capital to take advantage of the growth opportunities presented by the improving pricing environment. I would like to thank our existing and new shareholders for their strong support for the capital raise.

The effects of COVID-19 as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. For Lancashire, the current estimated impact of the COVID-19 loss event has been assessed consistent with our usual internal processes for deriving ultimate loss estimates, albeit that there is higher uncertainty with this event. During the second quarter of 2020, we increased our COVID-19 loss estimate to approximately \$42 million, from approximately \$35 million, net of reinsurance and reinstatement premiums. As noted in the our Q1 trading statement, Lancashire does not write the following lines of business: travel insurance; trade credit; accident and health; Directors’ and Officers’ liability; medical malpractice; and long-term life. The Group also has minimal exposure to mortgage business and is exposed to a small number of event cancellation contracts.

In a rapidly changing market, we are seeing attractive opportunities to develop many of our existing lines of business and to establish new ones. Our business is well positioned to grow our underwriting portfolio and to develop opportunities to improve the risk adjusted returns for our business and our investors.”

Natalie Kershaw, Group Chief Financial Officer, commented:

“For the first half of 2020 we generated an underwriting profit of \$39.4 million and an overall comprehensive loss of \$14.7 million. Our financial results were impacted by the COVID-19 losses, plus a number of late reported attritional claims from prior years. Excluding COVID-19 we did not incur any new major losses in the first half of the year and we have seen significant premium growth across all our underwriting segments. Our investment strategy remains conservative and whilst our portfolio was impacted by the volatility which occurred during the first quarter of 2020 as a result of the global pandemic, I am pleased to note that for the year to 30 June 2020 our portfolio recovered to generate a positive return of 1.3%.

In line with our stated ordinary dividend policy, on 28 July we declared an ordinary interim dividend of \$0.05 per share.”

UNDERWRITING RESULTS

	Six months ended		Change	Change	RPI
	30 June 2020	30 June 2019			
Gross premiums written	\$m	\$m	\$m	%	%
Property	300.1	268.5	31.6	11.8	107
Energy	91.7	76.4	15.3	20.0	110
Marine	53.5	45.4	8.1	17.8	113
Aviation	50.2	39.3	10.9	27.7	121
Total	495.5	429.6	65.9	15.3	111

Gross premiums written increased by 15.3% in the first six months of 2020 compared to the same period in 2019. The Group's four principal segments, and the key market factors impacting them, are discussed below.

The increase in property gross premiums written was driven primarily by new business across all of the property classes, with rate and exposure increases also a strong contributor to the growth. Compared to the prior year, the second quarter renewal season was particularly strong, and saw the Group benefit from the hardening pricing environment. This contributed to significant growth in the property catastrophe class of business in the second quarter. These increases were partially offset by a reduction of premiums in the political risk class, which is largely a non-renewing book, plus a reduced level of reinstatement premium compared to the same period in 2019.

Energy gross premiums written increased primarily due to new business and rate and exposure increases in the upstream energy, downstream energy and power classes of business.

The increase in marine gross premiums written was primarily due to rate and exposure increases across all lines of business supported by new business growth in the marine cargo and the marine hull classes of business. The marine segment also benefited from exposure increases on policies bound in prior underwriting years.

Although the first half of the year is not a major renewal period for the aviation segment, we saw a significant increase in gross premiums written primarily due to new business and rate increases in the aviation deductible and the aviation hull and liability classes of business, as well as exposure increases on policies bound in prior underwriting years in the AV52 class.

Ceded reinsurance premiums increased by \$6.0 million, or 2.9%, in the first six months of 2020 compared to the same period in 2019. The increased spend was primarily due to cover purchased for newer classes of business. There was also increased outwards quota share reinsurance spend as a result of the higher inwards gross premiums written in the associated classes of business. These increases were largely offset by lower outwards reinstatement premiums compared to the prior year and a lower ceding percentage applied on some of the outwards quota share contracts purchased.

The Group's net loss ratio for the first six months of 2020 was 57.4% compared to 34.5% for the same period in 2019. The accident year loss ratio for the first six months of 2020, including the impact of foreign exchange revaluations, was 55.4% compared to 40.5% for the same period in 2019. Excluding the impact of COVID-19, the Group's net loss ratio was 40.0% and the accident year loss ratio was 38.2%.

As at 30 June 2020, the Group's COVID-19 ultimate loss estimate, net of reinsurance and reinstatement premiums, amounted to approximately \$42 million. This arose primarily from exposures within our property segment. Given the ongoing nature of the COVID-19 pandemic and the uncertain impact on the insurance industry, the Group's actual ultimate loss may vary, perhaps materially, from the current estimate. The final settlement of all of these claims is likely to take place over a considerable period of time.

Prior year unfavourable development for 2020 was \$5.1 million, compared to \$15.9 million of favourable development for the same period in 2019. The unfavourable development during the first six months of 2020 was primarily driven by a number of late reported losses from the 2019 accident year, reserve deterioration on a couple of marine claims in the 2017 and 2019 accident years, in addition to adverse development on the 2010 New Zealand earthquake in the property segment. The favourable development during the first six months of 2019 was primarily due to general IBNR releases across most lines of business, offset somewhat by 2018 accident year claims in our property and energy segments.

The table below provides further detail of prior years' loss development by class, excluding the impact of foreign exchange revaluations:

	Six months ended	
	30 June 2020	30 June 2019
	\$m	\$m
Property	(3.7)	4.8
Energy	11.6	1.1
Marine	(14.5)	7.2
Aviation	1.5	2.8
Total	(5.1)	15.9

Note: Positive numbers denote favourable development.

Business review: Financial performance

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the six months 30 June 2020 and 2019:

	Six months ended	Six months ended
	30 June 2020	30 June 2019
	\$m	\$m
2010 accident year and prior	(5.6)	4.3
2011 accident year	0.3	1.9
2012 accident year	0.3	0.5
2013 accident year	(0.2)	0.5
2014 accident year	(0.5)	(0.2)
2015 accident year	0.5	—
2016 accident year	0.4	9.0
2017 accident year	(5.2)	10.0
2018 accident year	14.8	(10.1)
2019 accident year	(9.9)	—
Total	(5.1)	15.9

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 34.8% at 30 June 2020 compared to 34.8% at 30 June 2019.

INVESTMENTS

Net investment income, excluding realised and unrealised gains and losses, was \$14.9 million for the first six months of 2020, a decrease of 24.0% from the same period in 2019. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of \$22.0 million for the first six months of 2020 compared to a gain of \$57.1 million for the first six months of 2019.

The Group's investment portfolio returned 1.3% for the first six months of 2020. As previously reported, the first quarter of 2020 produced a negative investment return of 1.9% given market volatility due to the COVID-19 pandemic, which then largely reversed in the second quarter resulting in quarterly gains of 3.3%. The second quarter gains were seen across all asset classes that benefited from significant U.S. fiscal stimuli. Fixed maturities recouped all of the losses from the first quarter, with hedge funds, bank loans and private debt funds still showing small losses on a year to date basis.

Returns in the first six months of 2019 were driven by a strong equity market combined with both a decrease in treasury yields and a narrowing of credit spreads. This resulted in positive performance in all asset classes, particularly in the bank loan, equity and hedge fund portfolios.

The managed portfolio was invested as follows:

	30 June 2020	30 June 2019	31 December 2019
	%	%	%
Fixed maturity securities	81.0	82.1	79.0
Cash and cash equivalents	11.8	6.9	11.4
Hedge funds	4.5	9.5	8.7
Private investment funds	2.7	—	0.9
Equity securities	—	1.5	—
Total	100.0	100.0	100.0

Key investment portfolio statistics for our fixed maturities and managed cash were:

	30 June 2020	30 June 2019	31 December 2019
	Duration	1.9 years	1.8 years
Credit quality	AA-	A+	A+
Book yield	1.8%	2.7%	2.4%
Market yield	1.1%	2.4%	2.1%

Business review: Financial performance

LANCASHIRE THIRD PARTY CAPITAL MANAGEMENT

The total contribution from third party capital activities consists of the following items:

	Six months ended	Six months ended
	30 June 2020	30 June 2019
	\$m	\$m
LCM underwriting fees	2.7	1.9
LSL fees and profit commission	0.8	0.9
Total	3.5	2.8
Share of profit of associate	1.1	0.1
Total third party capital managed income	4.6	2.9

The higher Lancashire Capital Management underwriting fees in 2020 reflect the increased level of premiums under management compared to 2019. The share of profit of associate reflects Lancashire's equity interest in the Lancashire Capital Management managed vehicle.

OTHER OPERATING EXPENSES

Other operating expenses were \$55.1 million in the first six months of 2020 compared to \$50.8 million in the first six months of 2019. An increase in headcount, general salary increases and variability around incentive pay led to an increase in employment costs. This was partly offset by a reduction in other operating expenses and the favourable impact from the depreciation of Sterling foreign exchange rates relative to the prior period.

EQUITY BASED COMPENSATION

The equity based compensation expense was \$7.0 million in the first six months of 2020 compared to \$3.8 million in the first six months of 2019. The equity based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations.

CAPITAL

On 10 June 2020 a total of 39,568,089 new common shares in Lancashire were placed at a price of 700 pence per share, raising proceeds of \$340.3 million for the Company. The shares issued represented approximately 19.5% of the issued common share capital of Lancashire prior to the placing.

As at 30 June 2020, total capital available to Lancashire was \$1.830 billion, comprising shareholders' equity of \$1.506 billion and \$323.7 million of long-term debt. Tangible capital was \$1.675 billion. Leverage was 17.7% on total capital and 19.3% on total tangible capital. Total capital and total tangible capital as at 30 June 2019 were \$1.445 billion and \$1.291 billion.

Per share data

	Six months ended	Six months ended	Twelve months ended
	30 June 2020	30 June 2019	31 December 2019
Fully converted book value per share	\$6.16	\$5.52	\$5.84
Return on equity	7.2%	6.9%	14.1%
Return on equity excluding the impact of the capital raise	(1.0%)	6.9%	14.1%
Dividends per common share for the financial year	\$0.05	\$0.05	\$0.15
Diluted (loss) earnings per share	\$(0.13)	\$0.19	\$0.58

DIVIDENDS

Lancashire announces that on 28 July 2020 its Board of Directors declared an interim dividend for 2020 of \$0.05 (approximately £0.04) per common share, which will result in an aggregate payment of approximately \$12.1 million. The dividend will be paid in Pound Sterling on 11 September 2020 (the "Dividend Payment Date") to shareholders of record on 14 August 2020 (the "Record Date") using the £ / \$ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP"), or other services including international payment, are encouraged to contact the Group's registrars, Link Asset Services, for more details at: <https://www.linkassetsservices.com/shareholders-and-investors/shareholder-services-uk>.

Business review: Financial performance

RATINGS

Lancashire, through its UK and Bermuda-based operating subsidiaries, is a global provider of specialty insurance and reinsurance products. The Group companies carry the following ratings:

	Financial Strength Rating ⁽¹⁾	Long Term Issuer Rating ⁽²⁾	Financial Strength Outlook
A.M. Best	A (Excellent)	bbb+	Stable
S&P Global Ratings	A-	BBB	Stable
Moody's	A3	Baa2	Stable

⁽¹⁾ Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

⁽²⁾ Long Term Issuer Rating applies to Lancashire Holdings Limited.

Lancashire Syndicates 3010 and 2010 benefit from Lloyd's ratings: A.M. Best: A (Excellent); S&P Global Ratings: A+ (Strong); and Fitch: AA- (Very strong).

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME

For the six months ended 30 June 2020

	Notes	Six months	Six months	Twelve months
		2020 \$m	2019 \$m	2019 \$m
Gross premiums written	2	495.5	429.6	706.7
Outwards reinsurance premiums	2	(213.0)	(207.0)	(282.0)
Net premiums written		282.5	222.6	424.7
Change in unearned premiums	2	(129.3)	(104.2)	(35.8)
Change in unearned premiums on premiums ceded	2	77.6	94.3	32.8
Net premiums earned		230.8	212.7	421.7
Net investment income	3	14.9	19.6	37.7
Net other investment (losses) income	3	(15.5)	7.3	8.0
Net realised gains (losses) and impairments	3	10.6	(0.2)	8.9
Share of profit of associate		1.1	0.1	5.9
Other income		3.5	2.8	11.4
Net foreign exchange losses		(3.9)	(2.3)	(1.5)
Total net revenue		241.5	240.0	492.1
Insurance losses and loss adjustment expenses	2, 6	159.2	152.0	264.5
Insurance losses and loss adjustment expenses recoverable	2, 6	(26.8)	(78.6)	(134.7)
Net insurance losses		132.4	73.4	129.8
Insurance acquisition expenses	2	70.7	64.4	124.4
Insurance acquisition expenses ceded	2	(11.7)	(4.5)	(19.0)
Other operating expenses		55.1	50.8	106.0
Equity based compensation		7.0	3.8	9.6
Total expenses		253.5	187.9	350.8
Results of operating activities		(12.0)	52.1	141.3
Financing costs		11.0	11.6	21.8
(Loss) profit before tax		(23.0)	40.5	119.5
Tax charge	4	(3.0)	(1.4)	(1.3)
(Loss) profit after tax		(26.0)	39.1	118.2
(Loss) profit for the period attributable to:				
Equity shareholders of LHL		(26.0)	39.1	117.9
Non-controlling interests		—	—	0.3
(Loss) profit for the period		(26.0)	39.1	118.2
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 5	12.0	30.4	28.6
Tax charge on net change in unrealised gains / losses on investments	4, 5	(0.7)	(0.8)	(0.8)
Other comprehensive income		11.3	29.6	27.8
Total comprehensive (loss) income for the period		(14.7)	68.7	146.0
Total comprehensive (loss) income attributable to:				
Equity shareholders of LHL		(14.7)	68.7	145.7
Non-controlling interests		—	—	0.3
Total comprehensive (loss) income for the period		(14.7)	68.7	146.0
(Loss) earnings per share				
Basic	9	-\$0.13	\$0.19	\$0.59
Diluted	9	-\$0.13	\$0.19	\$0.58

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Notes	30 June 2020	30 June 2019	31 December 2019
		\$m	\$m	\$m
Assets				
Cash and cash equivalents		496.5	232.8	320.4
Accrued interest receivable		7.3	6.6	7.2
Investments	5	1,689.6	1,581.3	1,525.1
Inwards premiums receivable from insureds and cedants		459.1	425.4	350.5
Reinsurance assets				
- Unearned premiums on premiums ceded		167.1	151.0	89.5
- Reinsurance recoveries	6	323.1	306.4	327.5
- Other receivables		27.6	43.2	16.9
Other receivables		33.3	56.2	51.7
Investment in associate		81.5	65.2	108.3
Property, plant and equipment		0.9	1.3	1.2
Right-of-use assets	8	16.8	19.5	18.2
Deferred acquisition costs		96.8	84.8	81.7
Intangible assets		154.5	153.8	154.5
Total assets		3,554.1	3,127.5	3,052.7
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	6	888.6	884.1	874.5
- Unearned premiums		535.7	474.8	406.4
- Other payables		26.4	40.8	27.4
Amounts payable to reinsurers		179.6	178.2	126.6
Deferred acquisition costs ceded		17.2	11.4	17.6
Other payables		42.0	54.7	47.5
Corporation tax payable		1.6	2.1	2.4
Deferred tax liability	7	12.2	12.3	9.6
Interest rate swap		1.3	1.4	1.1
Lease liability		19.6	22.5	21.9
Long-term debt		323.7	324.1	323.5
Total liabilities		2,047.9	2,006.4	1,858.5
Shareholders' equity				
Share capital	8	121.3	101.0	101.5
Own shares	8	(6.7)	(5.3)	(13.3)
Other reserves		1,202.3	867.9	881.3
Accumulated other comprehensive income	5	24.8	15.3	13.5
Retained earnings		164.4	141.9	210.6
Total shareholders' equity attributable to equity shareholders of LHL		1,506.1	1,120.8	1,193.6
Non-controlling interests		0.1	0.3	0.6
Total shareholders' equity		1,506.2	1,121.1	1,194.2
Total liabilities and shareholders' equity		3,554.1	3,127.5	3,052.7

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 28 July 2020 and signed on its behalf by:



Peter Clarke
Director/Chairman



Natalie Kershaw
Director/CFO

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2020

		Share capital	Own shares	Other reserves	Accumulated other comprehensive income	Retained earnings	Shareholders' equity attributable to equity shareholders of LHL	Non-controlling interests	Total shareholders' equity
	Notes	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance as at 31 December 2018		101.0	(9.4)	869.0	(14.3)	120.9	1,067.2	0.3	1,067.5
Initial application of IFRS 16 - Leases		—	—	—	—	2.0	2.0	—	2.0
Total comprehensive income for the period		—	—	—	29.6	39.1	68.7	—	68.7
Distributed by trust		—	4.1	(5.1)	—	—	(1.0)	—	(1.0)
Dividends on common shares		—	—	—	—	(20.1)	(20.1)	—	(20.1)
Equity based compensation		—	—	4.0	—	—	4.0	—	4.0
Balance as at 30 June 2019		101.0	(5.3)	867.9	15.3	141.9	1,120.8	0.3	1,121.1
Total comprehensive income for the period		—	—	—	(1.8)	78.8	77.0	0.3	77.3
Shares purchased by the trust	8	0.5	(9.3)	8.8	—	—	—	—	—
Distributed by trust		—	1.3	(1.6)	—	—	(0.3)	—	(0.3)
Dividends on common shares		—	—	—	—	(10.1)	(10.1)	—	(10.1)
Equity based compensation		—	—	6.2	—	—	6.2	—	6.2
Balance as at 31 December 2019		101.5	(13.3)	881.3	13.5	210.6	1,193.6	0.6	1,194.2
Total comprehensive loss for the period		—	—	—	11.3	(26.0)	(14.7)	—	(14.7)
Issue of common shares	8	19.8	—	320.5	—	—	340.3	—	340.3
Distributed by trust		—	6.6	(7.3)	—	—	(0.7)	—	(0.7)
Dividends on common shares		—	—	—	—	(20.2)	(20.2)	—	(20.2)
Dividends paid to minority interest holders		—	—	—	—	—	—	(0.5)	(0.5)
Net deferred tax		—	—	0.4	—	—	0.4	—	0.4
Equity based compensation		—	—	7.4	—	—	7.4	—	7.4
Balance as at 30 June 2020		121.3	(6.7)	1,202.3	24.8	164.4	1,506.1	0.1	1,506.2

CONDENSED INTERIM STATEMENT OF CONSOLIDATED CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months	Six months	Twelve months
		2020 \$m	2019 \$m	2019 \$m
Cash flows (used in) from operating activities				
(Loss) profit before tax		(23.0)	40.5	119.5
Tax paid		(1.2)	—	(2.1)
Depreciation		1.7	2.0	3.9
Interest expense on long-term debt		8.2	9.4	18.5
Interest expense on lease liabilities		0.6	0.7	1.3
Interest and dividend income	3	(17.9)	(19.2)	(39.7)
Net amortisation of fixed maturity securities		1.6	(1.0)	(1.3)
Equity based compensation		7.0	3.8	9.6
Foreign exchange losses		0.1	2.0	2.5
Share of profit of associate		(1.1)	(0.1)	(5.9)
Net other investment losses (income)		15.0	(7.3)	(8.8)
Net realised losses (gains) and impairments	3	(10.6)	0.2	(8.9)
Net unrealised losses on interest rate swaps		0.2	1.0	0.7
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		(10.1)	(51.2)	(46.0)
- Other assets and liabilities		14.3	(9.0)	(8.8)
Net cash flows (used in) from operating activities		(15.2)	(28.2)	34.5
Cash flows (used in) from investing activities				
Interest and dividends received		19.0	19.4	41.1
Purchase of property, plant and equipment		—	(0.6)	(1.1)
Purchase of underwriting capacity		—	—	(0.7)
Investment in associate	10	27.9	2.0	(35.3)
Purchase of investments		(619.3)	(522.9)	(948.3)
Proceeds on sale of investments		458.4	639.6	1,127.7
Net cash flows (used in) from investing activities		(114.0)	137.5	183.4
Cash flows from (used in) financing activities				
Interest paid		(8.3)	(9.4)	(18.5)
Lease liabilities paid		(1.8)	(1.8)	(3.6)
Proceeds from issue of common shares	8	340.3	—	—
Dividends paid		(20.2)	(20.1)	(30.2)
Dividend paid to minority interest holders		(0.5)	—	—
Distributions by trust		(0.7)	(1.0)	(1.3)
Net cash flows from (used in) financing activities		308.8	(32.3)	(53.6)
Net increase in cash and cash equivalents		179.6	77.0	164.3
Cash and cash equivalents at beginning of period		320.4	154.6	154.6
Effect of exchange rate fluctuations on cash and cash equivalents		(3.5)	1.2	1.5
Cash and cash equivalents at end of period		496.5	232.8	320.4

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2020

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of the Group's unaudited condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2020. These are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019.

Other

There are also amendments to other existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2020. These are not currently relevant for the Group and do not impact the annual consolidated financial statements of the Group or the unaudited condensed interim consolidated financial statements of the Group.

Basis of preparation

The Group's unaudited condensed interim consolidated financial statements are prepared using accounting policies consistent with IFRS as adopted by the EU and in accordance with IAS 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements which are prepared in accordance with IFRS as adopted by the EU.

The Directors have performed an assessment of the Group's ability to continue as a going concern, including a consideration of the potential impact of the COVID-19 pandemic. In its immediate response to the COVID-19 pandemic, the Group undertook a reforecast of its existing business plan and applied a number of sensitivity, stress and scenario tests. These included, amongst other analysis, a best estimate reforecast, a realistic stress test of COVID-19 insurance and investment portfolio losses and a reverse stress test. The testing identified that even under the more extreme of the realistic stress scenarios, the Group had more than adequate liquidity and solvency headroom.

Over more recent months, the COVID-19 pandemic has contributed to a significant hardening in the market. The Group's long-term strategy is to deploy more capital into a hardening market, in which pricing strengthens due to market capital constraints, and to lower the amount of capital deployed in softer markets, where pricing is weaker due to over-supply of risk capital. On 10 June 2020, the Group raised an additional \$340.3 million of equity capital which will be used to fund organic growth and take advantage of the much improved market opportunities.

Based on the going concern analysis performed as at 30 June 2020, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

The unaudited condensed interim consolidated balance sheet of the Group is presented in order of decreasing liquidity.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the respective reporting periods. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverables. This is discussed within our risk disclosure section below as well as page 114 and 125 of the 2019 Annual Report and Accounts.

Less significant estimates are made in determining the estimated fair value of certain financial instruments and management judgment is applied in determining impairment charges. The estimation of the fair value, specifically of "Level (iii)" investments is discussed in Note 5 and pages 114 and 115 of the 2019 Annual Report and accounts.

Whilst not significant, estimates are also utilised in the valuation of intangible assets. The fair value of intangible assets recognised on the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The assumptions made by management in performing annual impairment tests of intangible assets are subject to estimation uncertainty. The Covid-19 pandemic is considered a potential intangible asset impairment event. As at 30 June 2020, management have performed an off-cycle impairment review over our intangible assets and concluded that no impairment is required.

Seasonality of operations

The Group underwrites worldwide, short-tail insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes.

The Group has exposure to large losses arising from non-seasonal natural catastrophes, such as earthquakes, and also from risk losses throughout the year and from war, terrorism and political risk, power utilities and aviation deductible losses. On certain lines of business the Group's most significant exposures to catastrophe losses are greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period. This is broadly in line with the most active period of the North American windstorm season which is typically June to November. The Group is also exposed to Japanese and European windstorm seasons which are typically June to November and November to March, respectively.

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2020

Details of annual gross premiums written for the previous two years are as follows:

	2019		2018	
	\$m	%	\$m	%
January to June	429.6	60.8	392.5	61.5
July to December	277.1	39.2	246.0	38.5
Total	706.7	100.0	638.5	100.0

Risk disclosures

The Group is exposed to risks from several sources, classified into six primary risk categories. These are insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk. The six risk categories are discussed in detail on pages 118 to 142 of the Group's Annual Report and Accounts for the year ended 31 December 2019.

The Group's exposures to peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance. The exposure to catastrophe losses that would result in an impairment in the investment in associate is included in the figures below.

Zones	Perils	30 June 2020		30 June 2019		31 December 2019	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
100 year return period estimated net loss							
Gulf of Mexico ⁽¹⁾	Hurricane	183.8	11.0	143.4	11.1	139.7	10.3
California	Earthquake	110.2	6.6	83.1	6.4	85.2	6.3
Non-Gulf of Mexico - U.S.	Hurricane	108.4	6.5	74.7	5.8	72.8	5.3
Pan-European	Windstorm	66.3	4.0	61.0	4.7	59.8	4.4
Japan	Earthquake	58.1	3.5	37.3	2.9	51.3	3.8
Japan	Typhoon	60.9	3.6	27.9	2.2	26.8	2.0
Pacific North West	Earthquake	15.9	0.9	13.6	1.1	12.7	0.9

⁽¹⁾ Landing hurricane from Florida to Texas.

Zones	Perils	30 June 2020		30 June 2019		31 December 2019	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
250 year return period estimated net loss							
Gulf of Mexico ⁽¹⁾	Hurricane	327.9	19.6	324.6	25.1	311.0	22.8
Non-Gulf of Mexico - U.S.	Hurricane	370.3	22.1	328.9	25.5	307.8	22.6
California	Earthquake	151.5	9.0	153.0	11.9	161.1	11.8
Japan	Earthquake	94.3	5.6	99.4	7.7	165.7	12.2
Pan-European	Windstorm	87.0	5.2	89.2	6.9	88.1	6.5
Pacific North West	Earthquake	76.6	4.6	65.2	5.0	56.1	4.1
Japan	Typhoon	72.0	4.3	37.4	2.9	36.4	2.7

⁽¹⁾ Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, any modelled loss scenario could cause a larger loss to capital than the modelled expectation.

Covid-19 Pandemic

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Group or the insurance industry will be. The impact of the COVID-19 pandemic on the Group's risk profile is discussed below.

INSURANCE RISK

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover loss payments and expenses.

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2020

The Group's Post Loss Response process was initiated in response to the COVID-19 pandemic. The process reviewed and assessed the potential implications for each class of business that the Group underwrites, across all of its platforms, with involvement from the underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of loss reserving.

The Group does not write the following lines of insurance business: travel insurance, trade credit, accident and health, Directors' and Officers' liability, medical malpractice and long-term life. We have minimal exposure to mortgage business and are exposed to a small number of event cancellation contracts.

As at 30 June 2020, the Group's ultimate loss estimate, net of reinsurance and reinstatement premiums amounted to approximately \$42 million, for COVID-19 related losses. This is primarily in relation to our property segment. The majority of our current estimate is IBNR. Given the ongoing nature of the COVID-19 pandemic and the uncertain impact on the insurance industry, our preliminary estimates of losses and loss adjustment expenses and estimates of reinsurance recoverables may change materially.

MARKET RISK

Insurance market risk

From 2013 to 2017, the market for almost all of our products experienced a period of oversupply and there had been protracted "softer" pricing conditions within the international (re)insurance markets due to relatively lower levels of catastrophe losses and strong capital supply. Since 2017, the market has faced three challenging years featuring a large number of catastrophe losses, following which the rating environment started to improve. At the beginning of 2020, the Group took the decision to retain most of its 2019 profits, by not paying a special dividend, in anticipation of continued improving market conditions, which were evidenced during the first half of this year.

The recent COVID-19 pandemic has generated (re)insurance market losses both in terms of the claims environment and the negative impact on the investment markets. In the face of these challenges there has been a retrenchment in (re)insurance market risk capital and capacity. This in turn has led to continued rate increases in many of the Group's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Group expects the momentum of rising rates to continue in this and other classes of business across its portfolio during the rest of this year and throughout 2021. The rapid increase in rates and dislocation in reinsurance and retrocession markets that are currently being witnessed imply a return to a traditional "hard" market over the next six to twelve months. The Group expects to take advantage of this rating improvement by writing increased levels of business at better pricing levels.

Investment market risk

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio. The value of our investment portfolio has been impacted by the ongoing uncertainty and volatility in financial markets caused by the COVID-19 pandemic. For our fixed maturity portfolio, the COVID-19 pandemic has coincided with interest rates dropping to historically low levels. While decreasing interest rates would typically create unrealized gains in our fixed maturity portfolio, these were mitigated somewhat by widening credit spreads during the period. We continue to focus on the most significant risks in our investment portfolio which are interest rate risk, credit risk and liquidity risk, and have built our stress testing and risk analytics around these risks to ensure they are within our tolerances and preferences.

CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation.

The Group is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments. The COVID-19 pandemic has increased the risk of defaults across many industries and we continue to monitor credit risk during this time of volatility. While interest rates are at all-time lows and expected to remain low, credit spreads will remain volatile in the near-term. As at 30 June 2020 the average credit quality of the fixed maturity portfolio was AA- (31 December 2019 - A+).

We are exposed to counterparty credit risk in relation to the premium receivable from insurance brokers, insureds, cedants and on any amounts recoverable from reinsurers. Given the dislocation in the market, the COVID-19 pandemic may adversely impact on our ability to collect amounts due to the Group.

As at 30 June 2020 there has not been a change in our counterparty credit exposure, however, it is an area we continue to monitor. Provisions of \$5.1 million (30 June 2019 - \$3.1 million, 31 December 2019 - \$4.1 million) have been made for impaired or irrecoverable balances and \$1.0 million (30 June 2019 - \$0.2 million, 31 December 2019 - \$1.2 million) was charged to the consolidated statement of comprehensive (loss) income in respect of bad debts.

LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring unreasonable costs. Our investment strategy is to hold high quality, liquid securities sufficient to meet insurance liabilities and other near-term liquidity requirements. The core and core plus portfolios are specifically designed to ensure funds are readily available in an extreme event.

The Group has modelled a series of COVID-19 stress tests and assessed the potential impact on future cashflows and liquidity. As at 30 June 2020, the Group considers that it has more than adequate liquidity to pay its obligations as they fall due.

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2020

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate internal processes, personnel, systems or external events.

The COVID-19 pandemic has challenged the robustness of the Group's operational risk management framework. We are pleased with the Group's operational resilience and the business continuity arrangements that have been demonstrated in the face of the pandemic. All employees have been working from home since March 2020 with no noticeable adverse impact on the Group's operating effectiveness.

The Group recognises that it may be exposed to an increased level of operational cyber risk as a result of all employees working from home. The risk is being managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process and the annual testing of business continuity plans and disaster recovery plans.

STRATEGIC RISK

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required;
- the risks of succession planning, staff retention and key man risks.

In its immediate response to the COVID-19 pandemic, the Group undertook a reforecast of its existing business plan and applied a number of sensitivity, stress and scenario tests. The testing identified that even under the more extreme stress scenarios the Group had more than adequate liquidity and solvency headroom.

On 10 June 2020, the Group raised an additional \$340.3 million in capital which will be used to fund organic growth and take advantage of the much improved market opportunities.

Management will continue to monitor and regularly review the longer-term impact of the COVID-19 pandemic on the Group.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in Bermuda and London. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the official list and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007 LHL's shares have had a secondary listing on the BSX. LHL's head office and registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its four principal segments: Property, Energy, Marine and Aviation. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

The Group's operating segments for the purposes of segmental reporting have been revised in the current year. The revenue and expenses previously reported in the Lancashire Syndicates segment are now reported across the four principal operating segments. Comparative figures for the six months ended 30 June 2019 and the year ended 31 December 2019 have been re-presented in conformity with the current year view.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2020	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
Gross premiums written by geographic area					
U.S. and Canada	180.4	18.8	3.2	2.7	205.1
Worldwide - multi territory	37.4	58.3	43.7	28.9	168.3
Europe	30.2	4.5	3.6	6.2	44.5
Rest of the world	52.1	10.1	3.0	12.4	77.6
Total	300.1	91.7	53.5	50.2	495.5
Outwards reinsurance premiums	(133.6)	(44.5)	(15.3)	(19.6)	(213.0)
Change in unearned premiums	(103.5)	(25.5)	(14.4)	14.1	(129.3)
Change in unearned premiums on premiums ceded	58.1	21.3	7.2	(9.0)	77.6
Net premiums earned	121.1	43.0	31.0	35.7	230.8
Insurance losses and loss adjustment expenses	(75.6)	(28.8)	(25.2)	(29.6)	(159.2)
Insurance losses and loss adjustment expenses recoverable	0.8	12.5	(0.5)	14.0	26.8
Insurance acquisition expenses	(30.1)	(15.4)	(12.4)	(12.8)	(70.7)
Insurance acquisition expenses ceded	4.8	0.8	0.1	6.0	11.7
Net underwriting profit (loss)	21.0	12.1	(7.0)	13.3	39.4
Net unallocated income and expenses					(62.4)
Loss before tax					(23.0)
Net loss ratio	61.8%	37.9%	82.9%	43.7%	57.4%
Net acquisition cost ratio	20.9%	34.0%	39.7%	19.0%	25.6%
Expense ratio	—	—	—	—	23.9%
Combined ratio	82.7%	71.9%	122.6%	62.7%	106.9%

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2019	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
Gross premiums written by geographic area					
U.S. and Canada	142.4	9.2	3.6	3.2	158.4
Worldwide - multi territory	37.7	59.3	37.1	23.0	157.1
Europe	33.3	2.2	2.1	6.3	43.9
Rest of the world	55.1	5.7	2.6	6.8	70.2
Total	268.5	76.4	45.4	39.3	429.6
Outwards reinsurance premiums	(141.1)	(37.2)	(14.8)	(13.9)	(207.0)
Change in unearned premiums	(79.1)	(16.6)	(9.6)	1.1	(104.2)
Change in unearned premiums on premiums ceded	68.0	17.9	7.8	0.6	94.3
Net premiums earned	116.3	40.5	28.8	27.1	212.7
Insurance losses and loss adjustment expenses	(109.1)	(25.3)	(4.6)	(13.0)	(152.0)
Insurance losses and loss adjustment expenses recoverable	75.4	0.8	(1.5)	3.9	78.6
Insurance acquisition expenses	(34.7)	(11.5)	(10.4)	(7.8)	(64.4)
Insurance acquisition expenses ceded	3.0	0.2	0.1	1.2	4.5
Net underwriting profit	50.9	4.7	12.4	11.4	79.4
Net unallocated income and expenses					(38.9)
Profit before tax					40.5
Net loss ratio	29.0%	60.5%	21.2%	33.6%	34.5%
Net acquisition cost ratio	27.3%	27.9%	35.8%	24.4%	28.2%
Expense ratio	—	—	—	—	23.9%
Combined ratio	56.3%	88.4%	57.0%	58.0%	86.6%

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2019	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Total \$m
Gross premiums written by geographic area					
U.S. and Canada	194.6	20.0	6.4	5.2	226.2
Worldwide - multi territory	59.1	89.4	60.1	68.1	276.7
Europe	44.7	4.8	4.3	18.9	72.7
Rest of world	83.7	13.9	6.1	27.4	131.1
Total	382.1	128.1	76.9	119.6	706.7
Outwards reinsurance premiums	(167.0)	(43.6)	(14.7)	(56.7)	(282.0)
Change in unearned premiums	(3.0)	(0.3)	(4.3)	(28.2)	(35.8)
Change in unearned premiums on premiums ceded	14.4	1.3	0.6	16.5	32.8
Net premiums earned	226.5	85.5	58.5	51.2	421.7
Insurance losses and loss adjustment expenses	(185.3)	(27.5)	(15.5)	(36.2)	(264.5)
Insurance losses and loss adjustment expenses recoverable	111.5	8.5	(2.9)	17.6	134.7
Insurance acquisition expenses	(60.4)	(27.0)	(19.5)	(17.5)	(124.4)
Insurance acquisition expenses ceded	9.5	1.4	0.2	7.9	19.0
Net underwriting profit	101.8	40.9	20.8	23.0	186.5
Net unallocated income and expenses					(67.0)
Profit before tax					119.5
Net loss ratio	32.6%	22.2%	31.5%	36.3%	30.8%
Net acquisition cost ratio	22.5%	29.9%	33.0%	18.8%	25.0%
Expense ratio	—	—	—	—	25.1%
Combined ratio	55.1%	52.1%	64.5%	55.1%	80.9%

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the six months ended 30 June 2020	Net investment income and net other investment (losses) income ⁽¹⁾ \$m	Net realised gains (losses) and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	14.0	1.7	12.0	27.7	(1.7)	26.0
Fixed maturity securities - at FVTPL	(1.7)	3.1	—	1.4	—	1.4
Hedge funds - at FVTPL	(12.1)	3.9	—	(8.2)	—	(8.2)
Private investment funds - at FVTPL	(2.2)	—	—	(2.2)	—	(2.2)
Other investments	0.5	1.9	—	2.4	0.8	3.2
Cash and cash equivalents	0.9	—	—	0.9	(0.6)	0.3
Total investment return	(0.6)	10.6	12.0	22.0	(1.5)	20.5

⁽¹⁾ Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income (losses).

For the six months ended 30 June 2019	Net investment income and net other investment (losses) income ⁽¹⁾ \$m	Net realised gains (losses) and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	17.9	(0.6)	26.9	44.2	(0.2)	44.0
Fixed maturity securities - at FVTPL	2.3	—	—	2.3	—	2.3
Equity securities - AFS	—	—	3.5	3.5	—	3.5
Hedge funds - at FVTPL	4.2	0.2	—	4.4	—	4.4
Other investments	0.8	0.2	—	1.0	0.7	1.7
Cash and cash equivalents	1.7	—	—	1.7	0.4	2.1
Total investment return	26.9	(0.2)	30.4	57.1	0.9	58.0

⁽¹⁾ Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income (losses).

For the year ended 31 December 2019	Net investment income and net other investment (losses) income ⁽¹⁾ \$m	Net realised gains (losses) and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	33.4	(0.3)	31.3	64.4	(0.5)	63.9
Fixed maturity securities - at FVTPL	3.9	1.4	—	5.3	—	5.3
Equity securities - AFS	—	6.5	(2.7)	3.8	—	3.8
Hedge funds - at FVTPL	1.8	1.2	—	3.0	—	3.0
Other investments	2.3	0.1	—	2.4	0.3	2.7
Cash and cash equivalents	4.3	—	—	4.3	1.6	5.9
Total investment return	45.7	8.9	28.6	83.2	1.4	84.6

⁽¹⁾ Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income (losses).

Net investment income includes \$17.9 million (30 June 2019 - \$19.2 million; 31 December 2019 - \$39.7 million) of interest income on our AFS investment portfolio and cash and cash equivalents. Net realised gains (losses) and impairments includes impairment losses of \$nil (30 June 2019 - \$0.1 million; 31 December 2019 - \$0.3 million) recognised on fixed maturity securities. Realised gains and losses on futures, options contracts and swaps are included in net realised gains (losses) and impairments. Included in net investment income and net other investment (losses) income is \$2.1 million (30 June 2019 - \$2.3 million; 31 December 2019 - \$4.4 million) of investment management, accounting and custodian fees.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

4. TAX

BERMUDA

LHL, LICL, LUK and LCM have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

	Six months 2020 \$m	Six months 2019 \$m	Twelve months 2019 \$m
Corporation tax charge for the period	0.1	2.0	5.8
Adjustments in respect of prior period corporation tax	0.5	(0.8)	(2.0)
Deferred tax credit for the period	0.8	(0.9)	(3.0)
Adjustments in respect of prior period deferred tax	—	1.1	0.5
Tax rate change adjustment	1.6	—	—
Total tax charge	3.0	1.4	1.3

	Six months 2020 \$m	Six months 2019 \$m	Twelve months 2019 \$m
Tax reconciliation⁽¹⁾			
(Loss) profit before tax	(23.0)	40.5	119.5
Tax calculated at the standard corporation tax rate applicable in Bermuda 0% (2019 - Bermuda 0%)	—	—	—
Effect of income taxed at a higher rate	0.7	0.1	1.0
Adjustments in respect of prior period	0.5	0.3	(1.5)
Differences related to equity based compensation	0.6	(0.2)	(0.6)
Other expense permanent differences	(0.4)	1.2	2.4
Tax rate change adjustment	1.6	—	—
Total tax charge	3.0	1.4	1.3

⁽¹⁾ All tax reconciling balances have been classified as recurring items.

The current tax charge as a percentage of the Group's (loss) profit before tax is (13.0)% (30 June 2019 - 3.5%; 31 December 2019 - 1.1%). Non taxable income relates to profits of companies within the Group that are non-tax resident in the UK and the share of profit of associate.

Refer to note 5 for details of the tax credit related to the net change in unrealised gains and losses on investments that are included in accumulated other comprehensive income within shareholders' equity.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

5. INVESTMENTS

As at 30 June 2020	Cost or amortised cost \$m	Unrealised gain ⁽¹⁾ \$m	Unrealised loss ⁽¹⁾ \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	110.5	0.2	—	110.7
- Fixed maturity funds	15.6	—	—	15.6
- U.S. treasuries	283.4	4.0	—	287.4
- Other government bonds	41.6	0.6	(0.5)	41.7
- U.S. municipal bonds	8.0	0.7	—	8.7
- U.S. government agency debt	98.0	3.7	—	101.7
- Asset backed securities	122.1	0.5	(4.7)	117.9
- U.S. government agency mortgage backed securities	131.3	3.4	—	134.7
- Non-agency mortgage backed securities	14.2	0.1	(0.2)	14.1
- Agency commercial mortgage backed securities	0.9	—	(0.2)	0.7
- Non-agency commercial mortgage backed securities	3.8	0.1	—	3.9
- Bank loans	110.6	0.3	(6.1)	104.8
- Corporate bonds	560.3	21.7	(1.4)	580.6
Total fixed maturity securities - AFS	1,500.3	35.3	(13.1)	1,522.5
- Fixed maturity securities - at FVTPL	25.7	2.5	—	28.2
- Private investment funds - at FVTPL	55.0	—	(2.8)	52.2
- Hedge funds - at FVTPL	89.1	5.5	(7.7)	86.9
- Other investments	—	—	(0.2)	(0.2)
Total investments	1,670.1	43.3	(23.8)	1,689.6

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

As at 30 June 2019	Cost or amortised cost \$m	Unrealised gain ⁽¹⁾ \$m	Unrealised loss ⁽¹⁾ \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	132.7	0.1	—	132.8
- Fixed maturity funds	12.3	—	—	12.3
- U.S. treasuries	168.6	1.0	(0.2)	169.4
- Other government bonds	47.3	0.4	(0.3)	47.4
- U.S. municipal bonds	13.9	0.3	—	14.2
- U.S. government agency debt	74.7	1.4	(0.1)	76.0
- Asset backed securities	114.5	0.7	(2.4)	112.8
- U.S. government agency mortgage backed securities	94.4	0.8	(0.6)	94.6
- Non-agency mortgage backed securities	15.6	0.1	(0.1)	15.6
- Agency commercial mortgage backed securities	3.2	—	(0.1)	3.1
- Bank loans	117.6	0.2	(1.7)	116.1
- Corporate bonds	544.7	8.9	(0.8)	552.8
Total fixed maturity securities - AFS	1,339.5	13.9	(6.3)	1,347.1
- Fixed maturity securities - at FVTPL	45.7	1.6	—	47.3
- Equity securities - AFS	20.0	6.2	—	26.2
- Hedge funds - at FVTPL	150.1	15.5	(4.5)	161.1
- Other investments	—	—	(0.4)	(0.4)
Total investments	1,555.3	37.2	(11.2)	1,581.3

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

As at 31 December 2019	Cost or amortised cost \$m	Unrealised gain(1) \$m	Unrealised loss(1) \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	84.8	—	—	84.8
- Fixed maturity funds	12.8	—	—	12.8
- U.S. treasuries	160.8	0.9	(0.1)	161.6
- Other government bonds	47.1	0.5	(0.1)	47.5
- U.S. municipal bonds	8.2	0.2	—	8.4
- U.S. government agency debt	59.5	1.3	(0.1)	60.7
- Asset backed securities	127.8	0.5	(3.3)	125.0
- U.S. government agency mortgage backed securities	96.8	1.1	(0.4)	97.5
- Non-agency mortgage backed securities	15.4	—	—	15.4
- Agency commercial mortgage backed securities	2.2	—	—	2.2
- Bank loans	101.7	0.6	(0.6)	101.7
- Corporate bonds	581.2	11.4	(0.4)	592.2
Total fixed maturity securities - AFS	1,298.3	16.5	(5.0)	1,309.8
- Fixed maturity securities - at FVTPL	45.7	4.6	—	50.3
- Private investment funds - at FVTPL	15.5	—	—	15.5
- Hedge funds - at FVTPL	140.6	14.5	(5.1)	150.0
- Other investments	—	—	(0.5)	(0.5)
Total investments	1,500.1	35.6	(10.6)	1,525.1

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

Accumulated other comprehensive income is in relation to the Group's AFS fixed maturity and equity securities is as follows:

	30 June 2020 \$m	30 June 2019 \$m	31 December 2019 \$m
Unrealised gains	35.3	20.1	16.5
Unrealised losses	(13.1)	(6.3)	(5.0)
Net unrealised foreign exchange losses on fixed maturity securities - AFS	3.9	2.1	2.6
Tax provision	(1.3)	(0.6)	(0.6)
Accumulated other comprehensive income	24.8	15.3	13.5

The Group determines the estimated fair value of each individual security utilising the highest-level inputs available. Prices for the Group's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors and broker-dealers. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for the six months ended 30 June 2020 and 30 June 2019 and the year ended 31 December 2019.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, interest rates, prepayment speeds and default rates.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement. The Group determines securities classified as Level (iii) to include hedge funds and private investment funds.

The estimated fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The estimated fair value of the Group's private investment funds are determined using statements received from each fund's investment managers on either a monthly or quarterly arrears basis. In addition these valuations will be compared with benchmarks or other indices to assess the reasonableness of the estimates fair value of each fund. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAV's reported by the investment managers.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to \$75.0 million and transfers from Level (ii) to (i) securities amounted to \$170.4 million during the six months ended 30 June 2020.

The fair value hierarchy of the Group's investment holdings is as follows:

As at 30 June 2020	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	110.2	0.5	—	110.7
- Fixed maturity funds	—	15.6	—	15.6
- U.S. treasuries	287.4	—	—	287.4
- Other government bonds	2.0	39.7	—	41.7
- U.S. municipal bonds	—	8.7	—	8.7
- U.S. government agency debt	91.0	10.7	—	101.7
- Asset backed securities	0.7	117.2	—	117.9
- U.S. government agency mortgage backed securities	—	134.7	—	134.7
- Non-agency mortgage backed securities	—	14.1	—	14.1
- Agency commercial mortgage backed securities	—	0.7	—	0.7
- Non-agency commercial mortgage backed securities	—	3.9	—	3.9
- Bank loans	17.0	87.8	—	104.8
- Corporate bonds	362.8	217.8	—	580.6
Total fixed maturity securities - AFS	871.1	651.4	—	1,522.5
- Fixed maturity securities - at FVTPL	—	28.2	—	28.2
- Private investment funds - at FVTPL	—	—	52.2	52.2
- Hedge funds - at FVTPL	—	—	86.9	86.9
- Other investments	—	(0.2)	—	(0.2)
Total investments	871.1	679.4	139.1	1,689.6

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

As at 30 June 2019	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	132.8	—	—	132.8
- Fixed maturity funds	—	12.3	—	12.3
- U.S. treasuries	169.4	—	—	169.4
- Other government bonds	—	47.4	—	47.4
- U.S. municipal bonds	—	14.2	—	14.2
- U.S. government agency debt	—	76.0	—	76.0
- Asset backed securities	—	112.8	—	112.8
- U.S. government agency mortgage backed securities	—	94.6	—	94.6
- Non-agency mortgage backed securities	—	15.6	—	15.6
- Agency commercial mortgage backed securities	—	3.1	—	3.1
- Bank loans	—	116.1	—	116.1
- Corporate bonds	—	552.8	—	552.8
Total fixed maturity securities - AFS	302.2	1,044.9	—	1,347.1
- Fixed maturity securities - at FVTPL	—	47.3	—	47.3
- Equity securities - AFS	26.2	—	—	26.2
- Hedge funds - at FVTPL	—	—	161.1	161.1
- Other investments	—	(0.4)	—	(0.4)
Total investments	328.4	1,091.8	161.1	1,581.3
<hr/>				
As at 31 December 2019	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	80.7	4.1	—	84.8
- Fixed maturity funds	—	12.8	—	12.8
- U.S. treasuries	161.6	—	—	161.6
- Other government bonds	13.2	34.3	—	47.5
- U.S. municipal bonds	—	8.4	—	8.4
- U.S. government agency debt	50.6	10.1	—	60.7
- Asset backed securities	—	125.0	—	125.0
- U.S. government agency mortgage backed securities	—	97.5	—	97.5
- Non-agency mortgage backed securities	—	15.4	—	15.4
- Agency commercial mortgage backed securities	—	2.2	—	2.2
- Bank loans	0.8	100.9	—	101.7
- Corporate bonds	225.4	366.8	—	592.2
Total fixed maturity securities - AFS	532.3	777.5	—	1,309.8
- Fixed maturity securities - at FVTPL	—	50.3	—	50.3
- Private investment funds - at FVTPL	—	—	15.5	15.5
- Hedge funds - at FVTPL	—	—	150.0	150.0
- Other investments	—	(0.5)	—	(0.5)
Total investments	532.3	827.3	165.5	1,525.1

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

The table below analyses the movements in Level (iii) investments during the six months ended 30 June 2020 and 30 June 2019 and for the year ended 31 December 2019:

	Private investment funds \$m	Hedge funds \$m	Total \$m
As at 31 December 2018	—	149.2	149.2
Purchases	—	12.3	12.3
Sales	—	(5.4)	(5.4)
Total net realised and unrealised gains recognised in profit or loss	—	5.0	5.0
As at 30 June 2019	—	161.1	161.1
Purchases	15.5	5.4	20.9
Sales	—	(15.9)	(15.9)
Total net realised and unrealised losses recognised in profit or loss	—	(0.6)	(0.6)
As at 31 December 2019	15.5	150.0	165.5
Purchases	39.5	2.5	42.0
Sales	—	(57.9)	(57.9)
Total net realised and unrealised losses recognised in profit or loss	(2.8)	(7.7)	(10.5)
As at 30 June 2020	52.2	86.9	139.1

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expense \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
As at 31 December 2018	915.0	(322.9)	592.1
Net incurred losses for:			
Prior years	38.6	(54.5)	(15.9)
Current year	113.4	(24.1)	89.3
Exchange adjustments	2.0	(0.1)	1.9
Incurred losses and loss adjustment expenses	154.0	(78.7)	75.3
Net paid losses for:			
Prior years	173.7	(93.8)	79.9
Current year	11.2	(1.4)	9.8
Paid losses and loss adjustment expenses	184.9	(95.2)	89.7
As at 30 June 2019	884.1	(306.4)	577.7
Net incurred losses for:			
Prior years	(104.6)	32.5	(72.1)
Current year	217.1	(88.6)	128.5
Exchange adjustments	3.3	(1.7)	1.6
Incurred losses and loss adjustment expenses	115.8	(57.8)	58.0
Net paid losses for:			
Prior years	95.9	(32.5)	63.4
Current year	29.5	(4.2)	25.3
Paid losses and loss adjustment expenses	125.4	(36.7)	88.7
As at 31 December 2019	874.5	(327.5)	547.0
Net incurred losses for:			
Prior years	(8.1)	13.2	5.1
Current year	167.3	(40.0)	127.3
Exchange adjustments	(4.5)	2.2	(2.3)
Incurred losses and loss adjustment expenses	154.7	(24.6)	130.1
Net paid losses for:			
Prior years	130.1	(26.7)	103.4
Current year	10.5	(2.3)	8.2
Paid losses and loss adjustment expenses	140.6	(29.0)	111.6
As at 30 June 2020	888.6	(323.1)	565.5

The split of gross losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

	30 June 2020		30 June 2019		31 December 2019	
	\$m	%	\$m	%	\$m	%
Outstanding losses	366.1	41.2	352.3	39.9	352.0	40.2
Additional case reserves	122.2	13.8	155.0	17.5	138.8	15.9
Losses incurred but not reported	400.3	45.0	376.8	42.6	383.7	43.9
Total	888.6	100.0	884.1	100.0	874.5	100.0

The Group's ceded IBNR balance as at 30 June 2020 amounted to \$203.3 million (30 June 2019 - \$175.9 million, 31 December 2019 - \$214.9 million). The Group's reserve for unpaid losses and loss adjustment expenses for all periods had an estimated duration of approximately two years.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

CLAIMS DEVELOPMENT

The inherent uncertainty in reserving gives rise to favourable or unfavourable development on the established reserves. The total favourable or unfavourable development on net losses and loss adjustment expenses from prior years, excluding the impact of foreign exchange revaluations, was as follows:

	30 June 2020	30 June 2019	31 December 2019
(Unfavourable) favourable development	\$m	\$m	\$m
2010 accident year and prior	(5.6)	4.3	2.4
2011 accident year	0.3	1.9	1.4
2012 accident year	0.3	0.5	6.6
2013 accident year	(0.2)	0.5	4.2
2014 accident year	(0.5)	(0.2)	(1.3)
2015 accident year	0.5	—	5.7
2016 accident year	0.4	9.0	19.3
2017 accident year	(5.2)	10.0	30.8
2018 accident year	14.8	(10.1)	18.9
2019 accident year	(9.9)	—	—
Total (unfavourable) favourable development	(5.1)	15.9	88.0

7. PROVISION FOR DEFERRED TAX

	30 June 2020	30 June 2019	31 December 2019
	\$m	\$m	\$m
Equity based compensation	(4.5)	(2.8)	(4.1)
Claims equalisation reserves	3.0	4.8	3.9
Syndicate underwriting profits	(0.1)	(1.2)	(1.6)
Syndicate participation rights	14.2	12.6	12.5
Other temporary differences	(0.4)	(1.1)	(1.1)
Net deferred tax liability	12.2	12.3	9.6

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2020 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the periods ended 30 June 2020, 30 June 2019 and 31 December 2019 the Group has no uncertain tax positions.

The UK main rate of corporation tax for the financial year beginning 1 April 2020 has been maintained at 19%.

All deferred tax assets and liabilities are classified as non-current.

A deferred tax credit of \$0.4 million (30 June 2019 - \$nil, 31 December 2019 - \$nil) was recognised in other reserves which relates primarily to deferred tax credits for unexercised equity based compensation awards where the estimated market value is in excess of the cumulative expense at the reporting date.

8. SHARE CAPITAL

Authorised common shares of \$0.50 each	Number	\$m
As at 30 June 2020 and 2019 and 31 December 2019 and 2018	3,000,000,000	1,500.0
Allocated, called up and fully paid		
As at 31 December 2018 and 30 June 2019	201,941,918	101.0
Shares issued	1,000,000	0.5
As at 31 December 2019	202,941,918	101.5
Shares issued	39,568,089	19.8
As at 30 June 2020	242,510,007	121.3

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2020 was 242,510,007 (30 June 2019 - 201,941,918; 31 December 2019 - 202,941,918).

On 10 June 2020 LHL issued 39,568,089 new common shares. As a result of these shares being issued, a total of \$340.3 million was raised, \$19.8 million of which is included in share capital and \$320.5 million of which is included in contributed surplus, net of offering expenses.

9. (LOSS) EARNINGS PER SHARE

The following reflects the profit and share data used in the basic and diluted (loss) earnings per share computations:

	Six months 2020 \$m	Six months 2019 \$m	Twelve months 2019 \$m
(Loss) profit for the period attributable to equity shareholders	(26.0)	39.1	117.9
	Six months 2020 Number of shares	Six months 2019 Number of shares	Twelve months 2019 Number of shares
Basic weighted average number of shares	205,229,304	201,126,944	201,240,104
Dilutive effect of RSS	2,570,975	1,790,714	2,629,528
Diluted weighted average number of shares	207,800,279	202,917,658	203,869,632
(Loss) earnings per share	Six months 2020	Six months 2019	Twelve months 2019
Basic	-\$0.13	\$0.19	\$0.59
Diluted ¹	-\$0.13	\$0.19	\$0.58

1. Diluted EPS excludes dilutive effect of RSS when in a loss making position.

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options, where relevant performance criteria have not been met, are not included in the calculation of dilutive shares.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2020

10. RELATED PARTY DISCLOSURES

KEY MANAGEMENT COMPENSATION

Remuneration for key management (the Group's Executive Directors and Non-Executive Directors) was as follows:

	Six months 2020 \$m	Six months 2019 \$m	Twelve months 2019 \$m
Short-term compensation	2.2	1.8	4.6
Equity based compensation	2.2	0.6	2.0
Directors' fees and expenses	1.1	1.1	2.2
Total	5.5	3.5	8.8

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

TRANSACTIONS WITH ASSOCIATE

In 2013 LCM entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the period ended 30 June 2020 the Group recognised \$2.7 million (30 June 2019 - \$1.9 million; 31 December 2019 - \$8.9 million) of service fees and profit commissions in other income in relation to this agreement.

During the period ended 30 June 2020, the Group committed \$15.7 million (30 June 2019 - \$6.9 million; 31 December 2019 - \$48.0 million) of capital to KHL. During the period ended 30 June 2020, KHL returned \$43.6 million of capital to the Group (30 June 2019 - \$8.9 million; 31 December 2019 - \$12.7 million).

11. COMMITMENTS

CREDIT FACILITY FUND

As at 30 June 2020 the Group has a commitment of \$100.0 million (30 June 2019 - \$100.0 million; 31 December 2019 - \$100.0 million) relating to two credit facility funds.

PRIVATE INVESTMENT FUNDS

On 9 June 2020, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of \$30.0 million. As at 30 June 2020, there was a remaining undrawn commitment in the amount of \$24.0 million. The remaining capital commitment is expected to be drawn during the second half of 2020.

On 5 November 2019, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of \$25.0 million. As at 30 June 2020, there was a remaining undrawn commitment in the amount of \$2.3 million. The remaining capital commitment is expected to be drawn during the second half of 2020.

LEGAL PROCEEDINGS AND REGULATIONS

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

12. SUBSEQUENT EVENTS

DIVIDEND

On 28 July 2020 the Board of Directors declared the payment of an interim ordinary dividend of \$0.05 per common share (approximately £0.04 pence per common share) to shareholders of record on 14 August 2020, with a settlement date of 11 September 2020. The total dividend payable, will be approximately \$12.1 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge, that the unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the EU and where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, U.S GAAP have been considered and the interim management report herein includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, being:

- an indication of important events during the first six months of 2020 and their impact on the unaudited condensed interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- related party transactions that have taken place in the first six months of 2020 and that have materially affected the consolidated financial position or performance of LHL during that period, and any changes in the related party transactions described in the last Annual Report and Accounts that could have such a material effect.

The Directors also confirm that, in view of the unaudited condensed interim consolidated financial statements and the information contained within the interim management report, the business is a going concern. The Directors of the Company are listed on pages 50-51 of the LHL 2019 Annual Report and Accounts. The individuals responsible for authorising the responsibility statement on behalf of the Board on 28 July 2020 are:



Peter Clarke

Director/Chairman



Natalie Kershaw

Director/CFO

INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Conclusion

We have been engaged by the Company to review the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the condensed interim consolidated statement of comprehensive (loss) income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows, the risk and other disclosures and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 UK. 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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim consolidated financial statements.

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in the basis of preparation on page 12, the annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of interim consolidated financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of interim consolidated financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.



Rees Aronson
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
E14 5GL
28 July 2020

GLOSSARY

Accident year loss ratio

The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premium earned

Additional case reserves (ACR)

Additional reserves deemed necessary by management

AFS

Available for sale

AIM

A sub-market of the LSE

A.M. Best Company (A.M. Best)

A.M. Best is a full-service credit rating organisation dedicated to serving the financial services industries, focusing on the insurance sector

Board of Directors, Board

Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)

Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BSX

Bermuda Stock Exchange

Ceded

To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEO

Chief Executive Officer

CFO

Chief Financial Officer

Combined ratio

Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned

Deferred acquisition costs

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

Diluted earnings per share

Calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity based compensation awards into common shares under the treasury stock method

Directors fees and expenses

Unless otherwise stated includes fees and expenses of all Directors across the Group

Duration

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

Earnings per share (EPS)

Calculated by dividing net profit for the period attributable to shareholders by the weighted average number of common shares outstanding during the period, excluding treasury shares and shares held by the EBT

EBT

Lancashire Holdings Employee Benefit Trust

EU

European Union

FAL

Funds at Lloyd's

Fully converted book value per share (FCBVS)

Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised

FVTPL

Fair value through profit or loss

Gross premiums written

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

The Group or the Lancashire Group

LHL and its subsidiaries

IFRS

International Financial Reporting Standard(s)

Incurred but not reported (IBNR)

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

International Accounting Standard(s) (IAS)

Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)

An international panel of accounting experts responsible for developing IAS and IFRS

IRR

Internal rate of return

KHL

Kinesis Holdings I Limited

LCM

Lancashire Capital Management Limited

LCMMSL

LCM Marketing Services Limited

GLOSSARY

Kinesis

The Group's third party capital management division encompassing LCM, LCMMSL and the management of KHL and KRL

LHL

Lancashire Holdings Limited

LICL

Lancashire Insurance Company Limited

Lloyd's

The Society of Lloyd's

Losses

Demand by an insured for indemnity under an insurance contract

LSE

London Stock Exchange

LSL

Lancashire Syndicates Limited

LUK

Lancashire Insurance Company (UK) Limited

Moody's Investor Service (Moody's)

Moody's Corporation is the parent company of Moody's Investor Service, which provides credit rating and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

NAV

Net asset value

Net acquisition cost ratio

Ratio, in per cent, of net insurance acquisition expenses to net premiums earned

Net expense ratio

Ratio, in per cent, of other operating expenses to net premiums earned

Net loss ratio

Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums written

Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

OTC

Over the counter

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

RPI

Renewal Price Index

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

Syndicate 2010

Lloyd's Syndicate 2010, managed by LSL. The Group provides capital to support approximately 58.1% of the stamp

Syndicate 3010

Lloyd's Syndicate 3010, managed by LSL. The Group provides capital to support 100.0% of the stamp

Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date is deferred and amortised to future accounting periods

UK

United Kingdom

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

ALTERNATIVE PERFORMANCE MEASURES

As is customary in the insurance industry, the Group also utilises certain non-GAAP measures in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. In compliance with the Guidelines on APMs of the European Securities and Markets Authority, we give information on APMs in the table below. This information has not been audited.

Management believes that the APMs included in the unaudited condensed interim consolidated financial statements are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly-labelled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

Refer to pages 32 to 33 of the Glossary for definitions on each of the below APMs. Below is an explanation of the APMs as well as information regarding their relevance:

APM	Relevance
Net loss ratio	This ratio gives an indication of the amount of claims expected to be paid out per \$1.00 of net premium earned in the financial year.
Net acquisition cost ratio	This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per \$1.00 of net premium earned in the financial year.
Net expense ratio	This ratio gives an indication of the amount of operating expenses expected to be paid out per \$1.00 of net premium earned in the financial year.
Combined ratio (KPI)	The Group aims to price its business to ensure that the combined ratio across the cycle is significantly less than 100%.
Accident year loss ratio	This ratio shows the amount of claims expected to be paid out per \$1.00 of net premium earned in an accident year.
Fully converted book value per share ('FCBVS') attributable to the Group	Shows the Group net asset value on a diluted per share basis for comparison to the market value per share.
Return on equity ('RoE') (KPI) (RoE is also sometimes referred to as the change in FCBVS adjusted for dividends)	The Group's aim is to maximise risk-adjusted returns for shareholders across the cycle.
Total investment return (KPI)	The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio return.

Note regarding forward-looking statements

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELLED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS “BELIEVES”, “ANTICIPATES”, “PLANS”, “PROJECTS”, “FORECASTS”, “GUIDANCE”, “INTENDS”, “EXPECTS”, “ESTIMATES”, “PREDICTS”, “MAY”, “CAN”, “LIKELY”, “WILL”, “SEEKS”, “SHOULD”, OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE FINANCIAL POSITION OF THE COMPANY AND ITS SUBSIDIARIES (THE “GROUP”), THE GROUP’S TAX RESIDENCY, LIQUIDITY, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP’S INSURANCE BUSINESS) ARE FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR CLAIMS WHICH ARISE AS A RESULT OF THE COVID-19 PANDEMIC WHICH IS AN ONGOING EVENT AS AT THE DATE OF THIS RELEASE, TYPHOON HAGIBIS WHICH OCCURRED IN THE FOURTH QUARTER OF 2019, HURRICANE DORIAN AND TYPHOON FAXAI WHICH OCCURRED IN THE THIRD QUARTER OF 2019, THE CALIFORNIAN WILDFIRES AND HURRICANE MICHAEL WHICH OCCURRED IN THE FOURTH QUARTER OF 2018, HURRICANE FLORENCE AND THE TYPHOONS THAT OCCURRED IN THE THIRD QUARTER OF 2018, HURRICANES HARVEY, IRMA AND MARIA AND THE EARTHQUAKES IN MEXICO THAT OCCURRED IN THE THIRD QUARTER OF 2017 AND THE WILDFIRES WHICH IMPACTED PARTS OF CALIFORNIA DURING 2017; THE IMPACT OF COMPLEX AND UNIQUE CAUSATION AND COVERAGE ISSUES ASSOCIATED WITH ATTRIBUTION OF LOSSES TO WIND OR FLOOD DAMAGE OR OTHER PERILS SUCH AS FIRE OR BUSINESS INTERRUPTION RELATING TO SUCH EVENTS; POTENTIAL UNCERTAINTIES RELATING TO REINSURANCE RECOVERIES, REINSTATEMENT PREMIUMS AND OTHER FACTORS INHERENT IN LOSS ESTIMATIONS; THE GROUP’S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP’S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP; THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP’S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING ‘SOFT’ AS WELL AS ‘HARD’ MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP’S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP’S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP’S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS, AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP’S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP’S OPERATING SUBSIDIARIES’ RATINGS WITH A.M. BEST, S&P GLOBAL RATINGS, MOODY’S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED MATURITY INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES, CURRENCY EXCHANGE RATES AND SECURITIES PRICES; CHANGES BY CENTRAL BANKS REGARDING THE LEVEL OF INTEREST RATES; THE IMPACT OF INFLATION OR DEFLATION IN RELEVANT ECONOMIES IN WHICH THE GROUP OPERATES; THE EFFECT, TIMING AND OTHER UNCERTAINTIES SURROUNDING FUTURE BUSINESS COMBINATIONS WITHIN THE INSURANCE AND REINSURANCE INDUSTRIES; THE IMPACT OF TERRORIST ACTIVITY IN THE COUNTRIES IN WHICH THE GROUP WRITES RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN THE GROUP’S INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; LANCASHIRE HOLDINGS LIMITED OR ANY OF THE GROUP’S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR IN THE UNITED KINGDOM; THE IMPACT OF THE CHANGE IN TAX RESIDENCE ON STAKEHOLDERS OF THE COMPANY; AND NEGOTIATIONS REGARDING THE UK’S RELATIONSHIP WITH THE EUROPEAN UNION ON THE GROUP’S BUSINESS, REGULATORY RELATIONSHIPS, UNDERWRITING PLATFORMS OR THE INDUSTRY GENERALLY, FOLLOWING THE UK’S EXIT FROM THE EUROPEAN UNION WHICH TOOK PLACE AT THE END OF JANUARY 2020.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGES IN THE GROUP’S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE GROUP OR INDIVIDUALS ACTING ON BEHALF OF THE GROUP ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS NOTE. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS RELEASE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.