LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 3.2% IN Q2 2017 AND 5.9% YEAR TO DATE
COMBINED RATIO OF 69.8% IN Q2 2017, 78.4% YEAR TO DATE
INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $6.23 AS AT 30 JUNE 2017

27 July 2017
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2017 and the six months ended 30 June 2017.

Financial highlights

	30 June 2017	30 June 2016
Fully converted book value per share	**$6.23**	**$6.40**
Return on equity[1] – Q2	**3.2%**	**3.2%**
Return on equity[1] – YTD	**5.9%**	**7.1%**
Return on tangible equity[2] – Q2	**3.6%**	**3.5%**
Return on tangible equity[2] – YTD	**6.8%**	**8.2%**
Operating return on average equity – Q2	**2.5%**	**2.0%**
Operating return on average equity – YTD	**4.5%**	**4.6%**
Interim dividend per common share[3]	**$0.05**	**$0.05**

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on tangible equity excludes goodwill and other intangible assets.
[3] See "Dividends" section below for Record Date and Dividend Payment Date.

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Highlights ($m)				
Gross premiums written	184.7	199.8	381.2	430.6
Net premiums written	163.5	157.0	239.8	278.6
Profit before tax	38.0	30.1	66.7	56.6
Profit after tax[1]	38.2	31.5	68.5	59.8
Comprehensive income[1]	40.5	38.6	74.6	81.7
Net operating profit[1]	30.9	25.6	56.1	58.0
Per share data				
Diluted earnings per share	$0.19	$0.16	$0.34	$0.30
Diluted earnings per share - operating	$0.15	$0.13	$0.28	$0.29
Financial ratios				
Total investment return including internal currency hedging	0.8%	0.9%	1.5%	1.6%
Net loss ratio	12.1%	28.6%	26.0%	29.1%
Combined ratio	69.8%	80.6%	78.4%	76.2%
Accident year loss ratio	39.5%	62.7%	43.3%	51.6%

[1] These amounts are attributable to Lancashire and exclude non-controlling interests.

Alex Maloney, Group Chief Executive Officer, commented:

"In the current continuing soft market I am very pleased with the RoE for the second quarter of 3.2% and 5.9% for the half year. Premium rating pressure continues in the current market. There is evidence from the insurance industry that many insurance classes are operating at marginal levels of profitability at best. The dynamics of the loss environment cannot be accurately predicted in the short term, but it is evident that so far in 2017 there has been a lower level of catastrophe losses than occurred in the first half of 2016, whilst there has continued to be an active run of risk losses in the market.

The insurance industry has experienced further rationalisation through the process of cost cutting and another flurry of M&A activity. Lancashire continues to respond to the pressures of the market by maintaining our underwriting excellence and discipline and keeping our overheads under control. Global headcount is around 200 people, and that gives us the size to retain some of the best underwriting talent whilst not having an infrastructure of such size and complexity as to require our business to "feed the beast" through imprudent top line growth. I believe that we are well positioned as we enter the wind season to provide solid risk-adjusted returns in what is a difficult market. Outwards reinsurance remains attractively priced and as a group we have purchased more reinsurance protection for hurricane risk than in previous years. We will review our capital needs following the wind season, whether that be to take advantage of underwriting opportunities or to return capital to our stakeholders.

I would like to welcome Andrew McKee who joined us in June as the chief executive of Cathedral Underwriting Limited, our Lloyd's underwriting agency. Andrew's many years of experience will help to further strengthen and develop our Lloyd's business within our broader group strategy. That strategy continues to be one of responding to the harsh conditions of a difficult market with patience and discipline so as to achieve success over the longer insurance cycle."

Elaine Whelan, Group Chief Financial Officer, commented:

"Our investment portfolio again performed well through a further rate increase and we had another quarter with no significant losses. Our net loss ratio for the quarter was 12.1%, reflecting continuing favourable development on our prior year reserves. We therefore produced a strong result, with an RoE for the quarter of 3.2% bringing us to 5.9% for the year to date.

Our results demonstrate our ability to manage the current stage of the cycle. We have protected both our insurance portfolio and our investment portfolio, and continue to carry a significant capital buffer as further protection in the current market. With our risk levels at historic lows, if there are no major events over the coming wind season, and no change in market conditions, we anticipate returning earnings to our shareholders later in the year. As ever, the balance of capital we hold will match the underwriting opportunities we see."

Renewal Price Index for major classes

The Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects our assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business, to offer a consistent basis for analysis. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2016, with our Lloyd's segment shown separately in order to aid comparability:

RPI Lancashire (excluding Lloyd's segment)

Class	YTD 2017	Q2 2017	Q1 2017
Aviation (AV52)	90 %	90 %	90 %
Gulf of Mexico energy	93 %	93 %	88 %
Energy offshore worldwide	98 %	104 %	94 %
Marine	89 %	88 %	89 %
Property retrocession and reinsurance	95 %	97 %	94 %
Terrorism	94 %	93 %	94 %
Lancashire (excluding Lloyd's segment)	**94%**	**95%**	**93%**

RPI (Lloyd's segment)

Class	YTD 2017	Q2 2017	Q1 2017
Aviation	99 %	102 %	96 %
Energy	96 %	97 %	95 %
Marine	97 %	98 %	97 %
Property retrocession and reinsurance	96 %	94 %	97 %
Terrorism	94 %	97 %	91 %
Lloyd's segment	**96%**	**97%**	**97%**

Underwriting results

Gross premiums written

	Q2				YTD			
	2017	2016	Change	Change	2017	2016	Change	Change
	$m	$m	$m	%	$m	$m	$m	%
Property	56.3	62.1	(5.8)	(9.3)	130.2	150.7	(20.5)	(13.6)
Energy	46.6	57.5	(10.9)	(19.0)	72.4	88.3	(15.9)	(18.0)
Marine	22.8	11.2	11.6	103.6	43.1	27.5	15.6	56.7
Aviation	4.4	5.8	(1.4)	(24.1)	7.6	17.2	(9.6)	(55.8)
Lloyd's	54.6	63.2	(8.6)	(13.6)	127.9	146.9	(19.0)	(12.9)
Total	**184.7**	**199.8**	**(15.1)**	**(7.6)**	**381.2**	**430.6**	**(49.4)**	**(11.5)**

Gross premiums written decreased by 7.6% in the second quarter of 2017 compared to the same period in 2016. In 2017 to date, gross premiums written decreased by 11.5% compared to the first six months of 2016. Gross premiums earned decreased by 12.7% in the second quarter of 2017 compared to the same period in 2016 and by 10.7% in the first six months of 2017 compared to the same period in 2016. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 9.3% for the second quarter of 2017 compared to the same period in 2016 and decreased by 13.6% in the first six months of 2017 compared to the first six months of 2016. The decrease for the quarter and the year to date was primarily due to multi-year contracts in the political risk and terrorism classes which were written in 2016 that are not yet due to renew. We continued to see new business in the political risk class, but business flow in this class is generally less predictable than other classes due to the specific nature of each deal. While rates continued to come under pressure across most lines of business, this was partially offset by some new business and additional limits written in the property catastrophe book.

Energy gross premiums written decreased by 19.0% for the second quarter of 2017 compared to the same period in 2016 and decreased by 18.0% in the first six months of 2017 compared to the first six months of 2016. The decrease for the quarter and the year to date was due to the timing and renewal of non-annual deals in the worldwide offshore book. The small increase in the Gulf of Mexico book was due to timing of multi-year deal renewals, offset to a degree, by some exposure reductions. Rate reductions continue but have slowed in the first half of 2017.

Marine gross premiums written increased by 103.6% for the second quarter of 2017 compared to the same period in 2016 and increased by 56.7% in the first six months for 2017 compared to the first six months of 2016. The majority of the increase for the quarter and the year to date was due to the timing of non-annual renewals together with an increase in prior underwriting year risk-attaching business due to changes in the underlying exposure. There was also some new pro-rata business written in both the first and second quarters of 2017.

Aviation gross premiums written decreased by 24.1% for the second quarter of 2017 compared to the same period in 2016 and decreased by 55.8% in the first six months of 2017 compared to the first six months of 2016. The second quarter is not a major renewal period for the aviation segment and the dollar movement for the quarter is small. For the year to date, the decrease is due to reductions on prior underwriting year risk attaching business in the AV52 book due to changes in the underlying exposure. Exposure was also reduced in the satellite book.

In the Lloyd's segment gross premiums written decreased by 13.6% for the second quarter of 2017 compared to the same period in 2016 and decreased by 12.9% in the first six months of 2017 compared to the first six months of 2016. While there were reductions in most lines of business, for both the quarter and year to date, the majority of the decrease was driven by the property, energy and terrorism books as rates continue to come under pressure due to overcapacity in the market. There were also some reinstatement premiums recorded in the second quarter of 2016 which have not recurred in 2017.

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Ceded reinsurance premiums decreased by $21.6 million, or 50.5%, for the second quarter compared to the same period in 2016 and decreased by $10.6 million, or 7.0%, for the first six months ended 30 June 2017 compared to the corresponding period in 2016. The decrease in spend for the quarter and year to date is primarily due to the timing of renewals and less reinstatement premiums.

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Net premiums earned as a proportion of net premiums written was 60.1% in the second quarter of 2017 compared to 72.2% for the same period in 2016 and 89.8% in the six months to 30 June 2017 compared to 89.9% in the same period in 2016. The reduction for the quarter is due to a higher proportion of earned reinsurance premium due to the timing of renewals.

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The Group's net loss ratio for the second quarter of 2017 was 12.1% compared to 28.6% for the same period in 2016 and 26.0% for the six months ended 30 June 2017 compared to 29.1% for the same period in 2016. The accident year loss ratio for the second quarter of 2017, including the impact of foreign exchange revaluations, was 39.5% compared to 62.7% for the same period in 2016 and 43.3% for the six months ended 30 June 2017 compared to 51.6% for the same period in 2016. There were no significant net losses in the second quarter of 2017 or the year to date, while the second quarter of 2016 included losses for the Fort McMurray wildfires plus some development on an energy loss recorded in the first quarter.

Prior year favourable development for the second quarter of 2017 was $27.2 million, compared to favourable development of $39.3 million for the second quarter of 2016. Favourable development was $37.8 million for the six months ended 30 June 2017, compared to favourable development of $57.0 million for the same period in 2016. The favourable development in all periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims, offset somewhat in the first quarter of 2017 by a 2016 accident year energy claim coming through.

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

	Q2		**YTD**	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Property	3.7	9.6	10.2	21.6
Energy	8.6	10.8	10.2	17.7
Marine	9.3	10.1	11.5	9.3
Aviation	0.7	1.0	1.7	2.4
Lloyd's	4.9	7.8	4.2	6.0
Total	**27.2**	**39.3**	**37.8**	**57.0**

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2017 and 2016:

	Six months ended 30 June 2017 $m	**Six months ended 30 June 2016 $m**
2007 accident year and prior	0.3	0.3
2008 accident year	0.5	0.8
2009 accident year	0.1	0.5
2010 accident year	1.6	1.4
2011 accident year	4.3	8.3
2012 accident year	3.1	4.0
2013 accident year	2.6	5.1
2014 accident year	2.9	10.2
2015 accident year	14.2	26.4
2016 accident year	8.2	–
Total	**37.8**	**57.0**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 36.2% at 30 June 2017 compared to 38.1% at 30 June 2016.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $8.2 million for the second quarter of 2017, a decrease of 3.5% from the second quarter of 2016. Net investment income was $14.7 million for the first six months of 2017, a decrease of 8.1% compared to the same period in 2016. 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 $14.9 million for the second quarter of 2017 compared to a gain of $17.0 million for the second quarter of 2016 and a gain of $27.1 million for the first six months of 2017 compared to a gain of $30.0 million for the same period in 2016.

The investment portfolio generated a return of 0.8% during the second quarter of 2017 and 1.5% for the first six months of 2017. Our fixed maturity portfolios generated solid returns, both in the second quarter of 2017 and for the first six months of 2017, due to a decline in longer dated treasury yields and a modest narrowing of credit spreads. Returns were also supported by strong performance from both the hedge fund and equity portfolios. In the second quarter of 2016, the Group's fixed maturity portfolios generated strong returns driven by a decline in treasury yields during the quarter, combined with positive returns in the Group's hedge fund, equity and bank loan portfolios. During the first six months of 2016, the investment return resulted primarily from positive returns on our fixed maturity portfolio driven by the significant decline in treasury yields, and strong returns in our bank loan portfolio.

The corporate bond allocation represented 32.3% of managed invested assets at 30 June 2017 compared to 31.1% at 30 June 2016.

The managed portfolio was as follows:

	As at 30 June 2017	As at 31 December 2016	As at 30 June 2016
Fixed maturity securities	80.4 %	81.4 %	80.8 %
Cash and cash equivalents	9.8 %	10.4 %	11.7 %
Hedge funds	8.6 %	7.0 %	6.8 %
Equity securities	1.2 %	1.2 %	0.7 %
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 30 June 2017	As at 31 December 2016	As at 30 June 2016
Duration	1.8 years	1.8 years	1.7 years
Credit quality	A+	A+	AA-
Book yield	2.0%	1.8%	1.7%
Market yield	2.0%	1.9%	1.5%

Lancashire Third Party Capital Management

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

	Q2		YTD	
	2017 $m	2016 $m	2017 $m	2016 $m
Kinesis underwriting fees	0.7	0.6	1.4	1.1
Kinesis profit commission	–	1.4	5.4	3.2
Lloyd’s fees & profit commission	0.6	2.6	1.1	2.9
Total other income	**1.3**	**4.6**	**7.9**	**7.2**
Share of profit of associate	0.7	0.4	1.4	1.7
Total third party capital managed income	**2.0**	**5.0**	**9.3**	**8.9**

The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. The majority of the collateral for the January 2016 underwriting cycle was released in the first quarter of 2017 and therefore most of the profit commission for that cycle was recognised then. The share of profit of associate reflects Lancashire’s 10% equity interest in the Kinesis vehicle. The reduction in Lloyd's fees and profit commission is driven by the relative profitability of the underwriting years impacting each period.

Other operating expenses

Other operating expenses consist of the following items:

	Q2		YTD	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Employee remuneration costs	13.2	15.6	28.2	32.1
Other operating expenses	12.6	9.9	21.8	19.1
Total	**25.8**	**25.5**	**50.0**	**51.2**

Employee remuneration costs for the second quarter and first six months of 2017 were $2.4 million and $3.9 million lower than the respective periods in 2016. The lower compensation charges are primarily driven by lower variable compensation, in addition to the benefit from the depreciation of Sterling relative to the prior year. The first six months of 2016 also included a higher compensation charge due to Cathedral staff departures.

Other operating expenses for both the second quarter and first six months of 2017 were $2.7 million higher than the respective periods in 2016. The increase is due to software costs and the timing of certain other expenses.

Equity based compensation

Equity based compensation was $2.9 million in the second quarter of 2017 compared to $4.8 million in the same period last year and $2.8 million for the first six months of 2017 compared to $8.4 million in the same period last year. The equity based compensation charge is driven by anticipated vesting levels of active awards based on current performance expectations. The lower charge for the quarter and year to date is in relation to awards granted to Cathedral employees. Awards made to certain employees on acquisition have now begun to vest. In addition, due to staff departures, a significant portion of grants made to those former employees have lapsed. Both of these have reduced the ongoing cost of our equity based compensation.

Capital

At 30 June 2017, total capital available to Lancashire was $1.585 billion, comprising shareholders' equity of $1.261 billion and $324.1 million of long-term debt. Tangible capital was $1.431 billion. Leverage was 20.4% on total capital and 22.6% on total tangible capital. Total capital and total tangible capital at 30 June 2016 were $1.612 billion and $1.458 billion respectively.

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Dividends

During the first quarter of 2017, the Lancashire Board of Directors declared a final dividend in respect of 2016 of $0.10 (approximately £0.08) per common share. The dividend, totalling $19.9 million, was paid on 22 March 2017 to shareholders of record on 24 February 2017.

Lancashire announces that its Board of Directors has declared an interim dividend for 2017 of $0.05 per common share (approximately (£0.04) per common share at the current exchange rate), which will result in an aggregate payment of approximately $10 million. The dividend will be paid in Pounds Sterling on 6 September 2017 (the "Dividend Payment Date") to shareholders of record on 11 August 2017 (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 registrars, Capita Asset Services for more details at: http://www.capitaassetservices.com

Financial information

Further details of our 2017 first quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Prior to the end of July 2017, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2017 via our website at www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00am EDT on Thursday 27th July 2017. The conference call will be hosted by Lancashire management.

Participant Access:
Dial in 5-10 minutes prior to the start time using the number / confirmation code below:

US	+1646 254 3388
US toll free	1877 280 2342
UK	+44(0)20 3427 1918
UK toll free	0800 279 4977
Toronto, Canada	+1416 216 4142
Confirmation Code:	**5215511**

The call can also be accessed via webcast, please go to our website at: http://www.lancashiregroup.com/en/investors.html or https://edge.media-server.com/m6/p/xzmygfxm to register and access.

A webcast replay facility will be available for 12 months and accessible at http://www.lancashiregroup.com/en/investors/results-reports-and-presentations.html

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About Lancashire

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

(1) Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.
(2) Long Term Issuer Rating applies to Lancashire Holdings Limited.

Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); S&P Global Ratings: A+ (Strong); and Fitch: AA- (Very Strong).

Lancashire has capital in excess of $1.5 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire and Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), visit Lancashire's website at www.lancashiregroup.com

The UK Prudential Regulation Authority ("PRA") is the Group Supervisor of the Lancashire Group.

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority ("BMA") in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA in the UK.

Kinesis Capital Management Limited is regulated by the BMA in Bermuda.

Cathedral Underwriting Limited is authorised by the PRA and regulated by the FCA and the PRA in the UK. It is also authorised and regulated by Lloyd's.

This release contains information, which may be of a price sensitive nature, that Lancashire is making public in a manner consistent with the EU Market Abuse Regulation and other regulatory obligations. The information was submitted for publication, through the agency of the contact persons set out above, at 07.00 BST on 27th July 2017.

NOTE REGARDING RPI METHODOLOGY

LANCASHIRE’S RENEWAL PRICE INDEX (“RPI”) IS AN INTERNAL METHODOLOGY THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI WRITTEN BY THE LANCASHIRE COMPANIES IN THE RESPECTIVE SEGMENTS IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE’S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI METHODOLOGY, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED 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 GROUP’S FINANCIAL POSITION, 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 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’ RATING 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; A CYCLICAL DOWNTURN 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; ANY OF THE GROUP’S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; ANYCHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF THE “BREXIT” VOTE AND FUTURE NEGOTIATIONS REGARDING THE U.K’S RELATIONSHIP WITH THE E.U., ON THE GROUP'S BUSINESS, REGULATORY RELATIONSHIPS, UNDERWRITING PLATFORMS OR THE INDUSTRY GENERALLY.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE 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.

Consolidated statement of comprehensive income

	Q2 2017 $m	Q2 2016 $m	YTD 2017 $m	YTD 2016 $m
Gross premiums written	184.7	199.8	381.2	430.6
Outwards reinsurance premiums	(21.2)	(42.8)	(141.4)	(152.0)
Net premiums written	**163.5**	**157.0**	**239.8**	**278.6**
Change in unearned premiums	(43.7)	(38.2)	(83.3)	(97.1)
Change in unearned premiums on premiums ceded	(21.5)	(5.4)	58.9	69.1
Net premiums earned	**98.3**	**113.4**	**215.4**	**250.6**
Net investment income	8.2	8.5	14.7	16.0
Net other investment (losses) income	(1.1)	0.9	(1.9)	(0.5)
Net realised gains (losses) and impairments	5.4	0.5	8.1	(7.4)
Share of profit of associate	0.7	0.4	1.4	1.7
Other income	1.3	4.6	7.9	7.2
Net foreign exchange gains	1.7	3.2	1.9	2.7
Total net revenue	**114.5**	**131.5**	**247.5**	**270.3**
Insurance losses and loss adjustment expenses	30.8	87.8	77.1	134.9
Insurance losses and loss adjustment expenses recoverable	(18.9)	(55.4)	(21.0)	(61.9)
Net insurance acquisition expenses	31.0	33.5	62.9	67.0
Equity based compensation	2.9	4.8	2.8	8.4
Other operating expenses	25.8	25.5	50.0	51.2
Total expenses	**71.6**	**96.2**	**171.8**	**199.6**
Results of operating activities	**42.9**	**35.3**	**75.7**	**70.7**
Financing costs	4.9	5.2	9.0	14.1
Profit before tax	**38.0**	**30.1**	**66.7**	**56.6**
Tax credit	0.2	1.4	2.1	3.3
Profit after tax	**38.2**	**31.5**	**68.8**	**59.9**
Non-controlling interests	–	–	(0.3)	(0.1)
Profit after tax attributable to Lancashire	**38.2**	**31.5**	**68.5**	**59.8**
Net change in unrealised gains/losses on investments	2.4	7.3	6.2	22.5
Tax provision on net change in unrealised gains/ losses on investments	(0.1)	(0.2)	(0.1)	(0.6)
Other comprehensive income	**2.3**	**7.1**	**6.1**	**21.9**
Total comprehensive income attributable to Lancashire	**40.5**	**38.6**	**74.6**	**81.7**
Net loss ratio	12.1%	28.6%	26.0%	29.1%
Net acquisition cost ratio	31.5%	29.5%	29.2%	26.7%
Administrative expense ratio	26.2%	22.5%	23.2%	20.4%
Combined ratio	69.8%	80.6%	78.4%	76.2%
Basic earnings per share	$ 0.19	$ 0.16	$ 0.34	$ 0.30
Diluted earnings per share	$ 0.19	$ 0.16	$ 0.34	$ 0.30
Change in fully converted book value per share	3.2%	3.2%	5.9%	7.1%

Consolidated balance sheet

	As at 30 June 2017	As at 30 June 2016	As at 31 December 2016
	$m	**$m**	**$m**
Assets			
Cash and cash equivalents	278.7	325.8	308.8
Accrued interest receivable	6.7	6.7	6.6
Investments	1,691.1	1,784.8	1,648.4
Inwards premiums receivable from insureds and cedants	370.4	369.9	270.0
Reinsurance assets			
- Unearned premiums on premiums ceded	92.8	99.3	33.9
- Reinsurance recoveries	148.4	139.5	136.7
- Other receivables	15.0	13.3	16.5
Other receivables	35.2	47.5	43.6
Corporation tax receivable	–	–	1.1
Investment in associate	26.6	24.8	49.7
Property, plant and equipment	3.2	6.2	5.3
Deferred acquisition costs	92.4	104.7	81.5
Intangible assets	153.8	153.8	153.8
Total assets	**2,914.3**	**3,076.3**	**2,755.9**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	648.0	712.1	679.8
- Unearned premiums	456.8	496.3	373.5
- Other payables	47.7	43.1	37.4
Amounts payable to reinsurers	86.0	92.2	52.7
Deferred acquisition costs ceded	1.7	1.8	0.4
Other payables	66.3	87.4	61.0
Corporation tax payable	0.2	0.1	–
Deferred tax liability	18.8	23.4	18.7
Interest rate swap	3.4	8.4	3.7
Long-term debt	324.1	322.9	320.9
Total liabilities	**1,653.0**	**1,787.7**	**1,548.1**
Shareholders' equity			
Share capital	100.7	100.7	100.7
Own shares	(13.1)	(26.4)	(23.2)
Other reserves	870.6	883.1	881.6
Accumulated other comprehensive (loss) income	(0.3)	11.4	(6.4)
Retained earnings	303.2	319.7	254.6
Total shareholders' equity attributable to equity shareholders of LHL	**1,261.1**	**1,288.5**	**1,207.3**
Non-controlling interest	0.2	0.1	0.5
Total shareholders' equity	**1,261.3**	**1,288.6**	**1,207.8**
Total liabilities and shareholders' equity	**2,914.3**	**3,076.3**	**2,755.9**
Basic book value per share	$6.31	$6.49	$6.07
Fully converted book value per share	$6.23	$6.40	$5.98

Consolidated statements of cash flows

	Six months 2017 $m	Six months 2016 $m	Twelve months 2016 $m
Cash flows (used in) from operating activities			
Profit before tax	66.7	56.6	150.4
Tax refunded (paid)	1.3	(1.3)	(1.3)
Depreciation	1.0	1.1	2.3
Interest expense on long-term debt	8.1	8.3	15.6
Interest and dividend income	(18.6)	(19.1)	(38.5)
Net amortisation of fixed maturity securities	1.8	2.5	5.0
Equity based compensation	2.8	8.4	10.7
Foreign exchange losses	5.7	(0.1)	(2.3)
Share of profit of associate	(1.4)	(1.7)	(5.1)
Net other investment losses (gains)	1.9	0.5	(6.9)
Net realised (gains) losses and impairments	(8.1)	7.4	2.4
Net unrealised (gains) losses on interest rate swaps	(0.3)	3.6	(1.1)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	(82.9)	(62.1)	(71.7)
- Other assets and liabilities	5.8	12.5	(10.6)
Net cash flows (used in) from operating activities	**(16.2)**	**16.6**	**48.9**
Cash flows from investing activities			
Interest and dividends received	18.5	18.9	38.4
Purchase of property, plant and equipment	(0.1)	(0.1)	(0.4)
Investment in associate	24.5	24.4	2.9
Purchase of investments	(598.9)	(607.4)	(1,214.0)
Proceeds on sale of investments	570.8	609.5	1,341.8
Net cash flows from investing activities	**14.8**	**45.3**	**168.7**
Cash flows used in financing activities			
Interest paid	(8.1)	(7.8)	(15.4)
Dividends paid	(19.9)	(19.8)	(178.9)
Dividends paid to minority interest holders	(0.6)	(0.5)	(0.5)
Distributions by trust	(3.7)	(2.1)	(2.9)
Net cash flows used in financing activities	**(32.3)**	**(30.2)**	**(197.7)**
Net (decrease) increase in cash and cash equivalents	**(33.7)**	**31.7**	**19.9**
Cash and cash equivalents at the beginning of year	308.8	291.8	291.8
Effect of exchange rate fluctuations on cash and cash equivalents	3.6	2.3	(2.9)
Cash and cash equivalents at end of year	**278.7**	**325.8**	**308.8**