LANCASHIRE HOLDINGS LIMITED

REDUCTION IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 0.9% IN Q4 2017 AND 5.9% IN 2017
COMBINED RATIO OF 119.5% IN Q4 2017 AND 124.9% IN 2017
FINAL ORDINARY DIVIDEND OF $0.10 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $5.48 AS AT 31 DECEMBER 2017

15 February 2018
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the fourth quarter of 2017 and the year ended 31 December 2017.

Financial highlights

	31 December 2017	31 December 2016
Fully converted book value per share	**$5.48**	**$5.98**
Return on equity[1] – Q4	**(0.9)%**	**2.8%**
Return on equity[1]– YTD	**(5.9)%**	**13.5%**
Return on tangible equity[2] – Q4	**(1.1)%**	**3.1%**
Return on tangible equity[2] – YTD	**(6.8)%**	**15.7%**
Operating return on average equity – Q4	**(0.3)%**	**3.4%**
Operating return on average equity – YTD	**(7.3)%**	**11.0%**
Dividends per common share[3] – YTD	**$0.15**	**$0.90**

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

	Three months ended		Twelve months ended	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Highlights ($m)				
Gross premiums written	67.4	95.1	591.6	633.9
Net premiums written	52.1	88.1	398.0	458.7
(Loss) profit before tax	(3.2)	50.9	(72.9)	150.4
(Loss) profit after tax[1]	(5.4)	51.1	(71.1)	153.8
Comprehensive (loss) income[1]	(9.1)	34.6	(66.2)	157.9
Net operating (loss) profit[1]	(3.1)	45.9	(86.0)	144.0
Per share data				
Diluted (loss) earnings per share	($0.03)	$0.25	($0.36)	$0.76
Diluted (loss) earnings per share - operating	($0.03)	$0.23	($0.43)	$0.71
Financial ratios				
Total investment return including internal currency hedging	0.4%	(0.1%)	2.5%	2.1%
Net loss ratio	75.5%	32.6%	78.4%	29.2%
Combined ratio	119.5%	79.0%	124.9%	76.5%
Accident year loss ratio	85.4%	49.6%	94.2%	46.2%

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

Alex Maloney, Group Chief Executive Officer, commented:

"In November I reported on the series of damaging catastrophe losses which had occurred over the summer months in the Caribbean, the Gulf of Mexico and U.S. coastal regions and the two sizeable earthquakes in Mexico. Adding to what was already a significant loss year, the run of catastrophe losses continued in the fourth quarter with the occurrence of wildfires across California in essentially two separate sequences of loss activity. These events have unfortunately resulted in one of the most severe years for catastrophe losses to the industry, with the sum of such insured losses in excess of $100 billion, placing 2017 in the top three years for aggregate catastrophe losses in recent history. Such events are not unprecedented and, as a catastrophe (re)insurer, we plan our underwriting, reinsurance programme, capital and risk levels in anticipation of such scenarios. Insurance is a cyclical business, the purpose of which is to smooth out the effect of losses from unpredictable catastrophe events over the course of time. That is as much the case for our business as it is for our clients.

The 2017 industry losses were comprised of a series of smaller to mid-sized catastrophe losses, impacting the U.S. and surrounding territories in particular, rather than a single major devastating catastrophe loss. These events occurred with greater frequency than has been the case in recent years. In such a challenging year, the Group has generated a negative RoE of 5.9%. Whilst I am not pleased to lose money, this is always a possibility for such types of event in any single underwriting year.

These 2017 losses have provided a real time "stress test" for Lancashire's enterprise risk management function, so it is pleasing that we have passed another important test of our model. Overall we feel that we had the right underwriting strategy, risk levels and capital headroom to absorb these events when balanced against the underwriting opportunity that presented itself during 2017. With the impairment of capital due to these catastrophe losses, and attrition across many specialty classes, the market has finally turned a corner and we are witnessing rate increases, or at least stability, across most of the classes of business we underwrite. We remain committed to our capital management strategy and will continue to deploy capital where attractive underwriting opportunities present themselves, but also remain committed to our strategy of returning excess capital if we conclude the underwriting risk and return balance is not sufficient to support our view of the opportunity. Underwriting expertise and discipline remains essential, but in the classes of business which we underwrite we are well positioned to take a lead in what may now prove to be a more interesting phase of the market cycle. I expect 2018 to be another challenging year for our industry, but I am confident that we have further demonstrated that the Lancashire Group has the appropriate business model, talent and access to capital to maximise underwriting opportunities to benefit our shareholders"

Elaine Whelan, Group Chief Financial Officer, commented:

"Following the hurricanes of the third quarter, the fourth quarter of 2017 saw further catastrophe loss activity with the California wildfires. These events have led to a small loss for the quarter. Our RoE for the fourth quarter was negative 0.9% bringing our RoE for the year to negative 5.9%.

With improved rates at the 1 January renewals, and our current outlook, we continue to expect to put all of our current capital to work this year. In line with our stated dividend policy we will continue with our ordinary dividend and are therefore declaring our standard final ordinary dividend of $0.10 per share."

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	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Aviation (AV52)	91 %	99 %	92 %	90 %	90 %
Gulf of Mexico energy*	93 %	—	—	93 %	88 %
Energy offshore worldwide	97 %	96 %	87 %	104 %	94 %
Marine	90 %	99 %	93 %	88 %	89 %
Property retrocession and reinsurance	95 %	107 %	95 %	97 %	94 %
Terrorism	96 %	99 %	95 %	93 %	94 %
Lancashire (excluding Lloyd's segment)	**94%**	**98%**	**93%**	**95%**	**93%**

*There was no renewing Gulf of Mexico energy business written in the third and fourth quarters of 2017.

RPI (Lloyd's segment)

Class	YTD 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Aviation	100 %	102 %	103 %	102 %	96 %
Energy	97 %	109 %	100 %	97 %	95 %
Marine	98 %	102 %	98 %	98 %	97 %
Property retrocession and reinsurance	96 %	102 %	97 %	94 %	97 %
Terrorism	92 %	99 %	94 %	97 %	91 %
Lloyd's segment	**97%**	**103%**	**97%**	**97%**	**97%**

Underwriting results

Gross premiums written

	Q4				YTD			
	2017 $m	2016 $m	Change $m	Change %	2017 $m	2016 $m	Change $m	Change %
Property	21.0	29.1	(8.1)	(27.8)	198.0	219.5	(21.5)	(9.8)
Energy	5.0	23.6	(18.6)	(78.8)	101.8	126.0	(24.2)	(19.2)
Marine	9.2	4.8	4.4	91.7	67.6	37.2	30.4	81.7
Aviation	4.0	8.0	(4.0)	(50.0)	16.9	36.2	(19.3)	(53.3)
Lloyd's	28.2	29.6	(1.4)	(4.7)	207.3	215.0	(7.7)	(3.6)
Total	**67.4**	**95.1**	**(27.7)**	**(29.1)**	**591.6**	**633.9**	**(42.3)**	**(6.7)**

Gross premiums written decreased by 29.1% in the fourth quarter of 2017 compared to the same period in 2016. In 2017, gross premiums written decreased by 6.7% compared to 2016. Gross premiums earned decreased by 19.0% in the fourth quarter of 2017 compared to the same period in 2016 and decreased by 6.9% in 2017 compared to 2016. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 27.8% for the fourth quarter of 2017 compared to the same period in 2016 and decreased by 9.8% in 2017 compared to 2016. The decrease for both the quarter and the year is primarily due to multi-year contracts in the property catastrophe, political risk and terrorism classes which were written in 2016 that are not yet due to renew. This reduction was partly offset by new business written in the political risk book for both the quarter and the year. Business flow in the political risk class is generally less predictable than other classes due to the specific nature of each deal. We also saw some new business written in the property catastrophe book in the first three quarters of the year and the third quarter included $7.0 million of reinstatement premiums in connection with hurricanes Harvey, Irma and Maria.

Energy gross premiums written decreased by 78.8% for the fourth quarter of 2017 compared to the same period in 2016 and decreased by 19.2% in 2017 compared to 2016. The fourth quarter is not typically a major renewal period for the energy segment. The decrease in the quarter was due to exposure reductions on prior underwriting year risk-attaching business in the worldwide offshore book, which included some construction projects that were delayed or cancelled. The decrease for the year was mainly due to these decreases plus the timing of renewal of non-annual deals in the worldwide offshore book.

Marine gross premiums written increased by 91.7% for the fourth quarter of 2017 compared to the same period in 2016 and increased by 81.7% in 2017 compared to 2016. The increase in the quarter was mainly due to new pro-rata business. The majority of the increase for the year was due to the new pro-rata business plus the timing of non-annual renewals and an increase in prior underwriting year risk-attaching business due to changes in the underlying exposure.

Aviation gross premiums written decreased by 50.0% for the fourth quarter of 2017 compared to the same period in 2016 and decreased by 53.3% in 2017 compared to 2016. The decrease for the quarter and year was due to exposure reductions on prior underwriting year risk-attaching business in the AV52 book. In addition, there were premium reductions year on year in the satellite book following the de-risking of this book in the first three quarters of 2017.

In the Lloyd's segment gross premiums written decreased by 4.7% for the fourth quarter of 2017 compared to the same period in 2016 and decreased by 3.6% in 2017 compared to 2016. The dollar decrease for the quarter was insignificant. The decrease for the year was driven primarily by continued rating pressure on the energy book. This decrease was partly offset by an increase in reinstatement premiums in connection with hurricanes Harvey, Irma and Maria.

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Ceded reinsurance premiums increased by $8.3 million, or 118.6%, for the fourth quarter of 2017 compared to the same period in 2016 and increased by $18.4 million, or 10.5%, in 2017 compared to 2016. The increased spend for the quarter was primarily driven by new cover purchased for the energy book and additional limit purchased for the Lloyd's segment. For the year the increase was due to additional limit purchased plus reinstatement premiums in connection with hurricanes Harvey, Irma and Maria.

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Net premiums earned as a proportion of net premiums written was 179.5% in the fourth quarter of 2017 compared to 145.5% for the same period in 2016 and 107.5% in 2017 compared to 106.4% in 2016. The increase for the quarter was mainly due to the exposure reductions on prior underwriting year risk-attaching business in the worldwide offshore book combined with the additional reinsurance purchases made. The impact of these was more pronounced given the lower volumes typical of the fourth quarter. The earnings ratios were relatively stable on an annual basis.

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Following the significant catastrophe activity of the third quarter, in the form of hurricanes Harvey, Irma and Maria and the two earthquakes in Mexico, the fourth quarter of 2017 was impacted by the California wildfires. As a result the Group's net loss ratio for the fourth quarter of 2017 was 75.5% compared to 32.6% for the same period in 2016 and 78.4% for 2017 compared to 29.2% for 2016. The accident year loss ratio for the fourth quarter of 2017, including the impact of foreign exchange revaluations, was 85.4% compared to 49.6% for the same period in 2016 and 94.2% for 2017 compared to 46.2% for 2016.

Our net losses recorded for the fourth quarter of 2017 in relation to the California wildfires, excluding the impact of inwards and outwards reinstatement premiums and our share of losses from Kinesis, were $34.5 million. On the same basis, our net losses incurred for hurricanes Harvey, Irma and Maria and the earthquakes in Mexico are now $147.3 million. While reserves have been recorded, significant uncertainty exists on the eventual ultimate losses in relation to the hurricanes, earthquakes and wildfires as loss information after these types of events can take some time to obtain. The Group's reserve estimates are derived from a combination of market data and assumptions, a limited number of provisional loss advices, limited client loss data and modeled loss projections. As additional information emerges, the Group's actual ultimate loss may vary, perhaps materially, from the current reported reserves. The final settlement of all claims is likely to take place over a considerable period of time.

While there were no other significant net losses in either 2017 or 2016, both years experienced a few small to mid-sized losses, primarily across the property and energy classes.

Excluding the impact of foreign exchange evaluations, the following table shows the impact of current accident year catastrophe events on the Group's loss ratio:

	Q4		YTD	
	Losses	**Loss ratio**	**Losses**	**Loss ratio**
	$m	**%**	**$m**	**%**
Reported loss ratio at 31 December 2017	70.6	75.5%	335.4	78.4%
Absent hurricane Harvey	73.9	79.5%	287.6	67.7%
Absent hurricane Irma	74.3	79.1%	281.6	66.1%
Absent hurricane Maria	68.8	75.9%	300.0	70.5%
Absent Mexico earthquakes	71.9	76.9%	325.1	76.0%
Absent California wildfires	36.1	38.8%	300.9	70.4%
Absent all catastrophe events	42.6	47.3%	153.6	36.6%

Note: The table does not sum to a total due to the impact of reinstatement premiums.

Prior year favourable development for the fourth quarter of 2017 was $7.4 million, compared to favourable development of $23.9 million for the fourth quarter of 2016. Favourable development was $65.1 million for 2017, compared to favourable development of $85.8 million for 2016. Despite some adverse development on prior accident year property and energy claims in 2017, the overall favourable development was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. Experience in 2016 was similar in terms of releases, offset partially by some adverse development on prior accident year energy and marine claims.

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

	Q4		YTD	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Property	(3.3)	6.0	14.4	36.6
Energy	5.0	(3.4)	21.1	17.3
Marine	0.6	0.6	15.2	1.9
Aviation	0.6	0.7	3.0	3.9
Lloyd's	4.5	20.0	11.4	26.1
Total	**7.4**	**23.9**	**65.1**	**85.8**

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:

	Year ended 31 December 2017 $m	**Year ended 31 December 2016 $m**
2007 accident year and prior	0.6	(0.4)
2008 accident year	(0.5)	1.6
2009 accident year	0.1	(18.0)
2010 accident year	1.8	3.2
2011 accident year	8.8	9.9
2012 accident year	5.0	13.5
2013 accident year	3.5	(1.6)
2014 accident year	9.2	19.9
2015 accident year	20.3	57.7
2016 accident year	16.3	–
Total	**65.1**	**85.8**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 44.8% at 31 December 2017 compared to 34.6% at 31 December 2016.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $7.8 million for the fourth quarter of 2017, an increase of 14.7% from the fourth quarter of 2016. Net investment income was $30.5 million for 2017, an increase of 2.3% compared to 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 $7.3 million for the fourth quarter of 2017 compared to a loss of $3.2 million for the fourth quarter of 2016 and a gain of $45.7 million for 2017 compared to a gain of $38.4 million for 2016.

The Group's investment portfolio generated a return of 0.4% during the fourth quarter of 2017. The Group's fixed maturity portfolio generated flat returns as the modest increase in treasury yields was offset by the narrowing of credit spreads plus coupon income. The portfolio return also benefited from strong returns from the hedge fund, bank loan and equity portfolios. During the fourth quarter of 2016 the portfolio lost 0.1% due to the significant increase in treasury yields, which caused negative returns in the standard fixed maturity portfolio. These losses were mitigated somewhat by strong returns from the Group's hedge fund, bank loan portfolios and equity linked notes.

Despite the increase in treasury yields in 2017, the investment portfolio produced a return of 2.5% due to the narrowing of credit spreads, coupon income and strong returns in the Group's risk-asset portfolios. In 2016, the investment portfolio returned 2.1%. The fixed maturity portfolios performed reasonably well in 2016, primarily due to the narrowing of credit spreads which more than offset the slight increase in treasury yields during the year. The 2016 returns were also supported by strong performance from the Group's bank loans, equities and equity linked notes.

The corporate bond allocation represented 28.2% of managed invested assets at 31 December 2017 compared to 32.5% at 31 December 2016.

The managed portfolio was as follows:

	As at 31 December 2017	As at 31 December 2016
Fixed maturity securities	80.1 %	81.4 %
Cash and cash equivalents	10.2 %	10.4 %
Hedge funds	8.4 %	7.0 %
Equity securities	1.3 %	1.2 %
Total	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 31 December 2017	As at 31 December 2016
Duration	1.7 years	1.8 years
Credit quality	AA-	A+
Book yield	2.0%	1.8%
Market yield	2.1%	1.9%

Lancashire Third Party Capital Management

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

	Q4		YTD	
	2017 $m	2016 $m	2017 $m	2016 $m
Kinesis underwriting fees	2.2	1.1	5.8	4.4
Kinesis profit commission	–	3.0	5.9	6.2
Lloyd’s fees & profit commission	4.0	6.2	5.5	9.9
Total other income	**6.2**	**10.3**	**17.2**	**20.5**
Share of profit (loss) of associate	2.3	0.7	(9.4)	5.1
Total net third party capital managed income	**8.5**	**11.0**	**7.8**	**25.6**

The increase in Kinesis underwriting fees during the fourth quarter and in 2017 was due to more limit placed compared to the prior periods.The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. The share of profit (loss) of associate reflects Lancashire’s 10% equity interest in the Kinesis vehicle. The overall loss for 2017 is entirely driven by the significant catastrophe activity during the second half of 2017. The reduction in Lloyd's fees and profit commission was driven by the relative profitability of the underwriting years impacting each period.

Other operating expenses

Other operating expenses consist of the following items:

	Q4		YTD	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Employee remuneration costs	9.2	14.6	40.2	61.4
Other operating expenses	11.4	8.8	43.4	37.1
Total	**20.6**	**23.4**	**83.6**	**98.5**

Employee remuneration costs for both the fourth quarter and 2017 were $5.4 million and $21.2 million lower than the respective periods in 2016. The lower compensation charges are primarily driven by lower variable compensation due to the catastrophe activity in the year.

Other operating expenses for both the fourth quarter and 2017 were $2.6 million and $6.3 million higher than the respective periods in 2016. The increase for the quarter was primarily due to placement fees for the Kinesis vehicle plus higher consulting costs. Additional software costs were also incurred earlier in the year, adding to the year on year increase.

Equity based compensation

A credit of $0.3 million was recorded for equity based compensation in the fourth quarter of 2017 compared to an expense of $0.6 million in the same period last year and a credit of $0.4 million for 2017 compared to an expense of $10.7 million in the prior year. The equity based compensation charge is driven by anticipated vesting levels of active awards based on current performance expectations. The decrease in the quarter and in 2017 was due to incorporating the third and fourth quarter losses into the performance estimates combined with the lapsing of awards of former Cathedral employees on their departure from the Group.

Capital

As at 31 December 2017, total capital available to Lancashire was $1.433 billion, comprising shareholders' equity of $1.107 billion and $326.3 million of long-term debt. Tangible capital was $1.279 billion. Leverage was 22.8% on total capital and 25.5% on total tangible capital. Total capital and total tangible capital as at 31 December 2016 were $1.528 billion and $1.374 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

The Lancashire Board declared the following dividends during 2017:

- A final dividend relating to 2016 of $0.10 per common share; and
- An interim dividend of $0.05 per common share.

Lancashire announces that its Board of Directors has declared a final dividend for 2017 of $0.10 per common share (approximately (£0.07) per common share at the current exchange rate), which will result in an aggregate payment of approximately $20 million. The dividend will be paid in Pounds Sterling on 21 March 2018 (the "Dividend Payment Date") to shareholders of record on 23 February 2018 (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, Link Asset Services for more details at: https://www.linkassetservices.com/shareholders/shareholder-services-uk

Financial information

The Audited Consolidated Financial Statements for the year ended 31 December 2017 and the 2017 fourth quarter Financial Supplement are published on Lancashire's website at www.lancashiregroup.com

The Annual Report and Accounts are expected to be posted to shareholders on 12 March 2018 and will also be made available on the website.

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 EST on Thursday 15 February 2018. 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:

United Kingdom - Toll free:	0800 279 7204
United Kingdom - Local:	+44 (0)330 336 9411
United States / Canada - Toll free:	1866 548 4713
United States - Local:	+1 323 794 2093
Canada - Local:	+1 647 794 1827
Confirmation Code:	**2835578**

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/gzm5fdjk 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

For further information, please contact:

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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 $1.4 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 GMT on 15 February 2018.

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 ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR 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 ESTIMATION; 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; ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF "BREXIT" (FOLLOWING THE UK'S NOTIFICATION TO THE EUROPEAN COUNCIL UNDER ARTICLE 50 OF THE TREATY ON EUROPEAN UNION ON 29 MARCH 2017) 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. 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 PARAGRAPH. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS RELEASE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.

Consolidated statement of comprehensive (loss) income

	Q4 2017 $m	Q4 2016 $m	YTD 2017 $m	YTD 2016 $m
Gross premiums written	67.4	95.1	591.6	633.9
Outwards reinsurance premiums	(15.3)	(7.0)	(193.6)	(175.2)
Net premiums written	**52.1**	**88.1**	**398.0**	**458.7**
Change in unearned premiums	69.5	73.9	22.6	25.7
Change in unearned premiums on premiums ceded	(28.1)	(33.8)	7.3	3.7
Net premiums earned	**93.5**	**128.2**	**427.9**	**488.1**
Net investment income	7.8	6.8	30.5	29.8
Net other investment income	2.7	3.4	1.2	6.9
Net realised gains (losses) and impairments	0.5	3.1	9.1	(2.4)
Share of profit (loss) of associate	2.3	0.7	(9.4)	5.1
Other income	6.2	10.3	17.2	20.5
Net foreign exchange (losses) gains	(0.8)	0.9	2.3	4.4
Total net revenue	**112.2**	**153.4**	**478.8**	**552.4**
Insurance losses and loss adjustment expenses	124.2	33.4	538.0	212.2
Insurance losses and loss adjustment expenses recoverable	(53.6)	8.4	(202.6)	(69.7)
Net insurance acquisition expenses	20.6	36.0	115.6	132.1
Equity based compensation	(0.3)	0.6	(0.4)	10.7
Other operating expenses	20.6	23.4	83.6	98.5
Total expenses	**111.5**	**101.8**	**534.2**	**383.8**
Results of operating activities	**0.7**	**51.6**	**(55.4)**	**168.6**
Financing costs	3.9	0.7	17.5	18.2
(Loss) profit before tax	**(3.2)**	**50.9**	**(72.9)**	**150.4**
Tax (charge) credit	(2.1)	0.5	2.3	3.9
(Loss) profit after tax	**(5.3)**	**51.4**	**(70.6)**	**154.3**
Non-controlling interests	(0.1)	(0.3)	(0.5)	(0.5)
(Loss) profit after tax attributable to Lancashire	**(5.4)**	**51.1**	**(71.1)**	**153.8**
Net change in unrealised gains/losses on investments	(3.7)	(17.1)	4.9	4.1
Tax provision on net change in unrealised gains/losses on investments	–	0.6	–	–
Other comprehensive (loss) income	**(3.7)**	**(16.5)**	**4.9**	**4.1**
Total comprehensive (loss) income attributable to Lancashire	**(9.1)**	**34.6**	**(66.2)**	**157.9**
Net loss ratio	75.5 %	32.6%	78.4 %	29.2%
Net acquisition cost ratio	22.0 %	28.1%	27.0 %	27.1%
Administrative expense ratio	22.0 %	18.3%	19.5 %	20.2%
Combined ratio	119.5 %	79.0%	124.9 %	76.5%
Basic (loss) earnings per share	$ (0.03)	$ 0.26	$ (0.36)	$ 0.77
Diluted (loss) earnings per share	$ (0.03)	$ 0.25	$ (0.36)	$ 0.76
Change in fully converted book value per share	(0.9)%	2.8%	(5.9)%	13.5%

Consolidated balance sheet

	As at 31 December 2017 $m	As at 31 December 2016 $m
Assets		
Cash and cash equivalents	256.5	308.8
Accrued interest receivable	6.1	6.6
Investments	1,654.6	1,648.4
Inwards premiums receivable from insureds and cedants	297.9	270.0
Reinsurance assets		
- Unearned premiums on premiums ceded	41.2	33.9
- Reinsurance recoveries	284.1	136.7
- Other receivables	20.7	16.5
Other receivables	42.4	43.6
Corporation tax receivable	–	1.1
Investment in associate	59.4	49.7
Property, plant and equipment	2.6	5.3
Deferred acquisition costs	76.7	81.5
Intangible assets	153.8	153.8
Total assets	**2,896.0**	**2,755.9**
Liabilities		
Insurance contracts		
- Losses and loss adjustment expenses	933.5	679.8
- Unearned premiums	350.9	373.5
- Other payables	40.7	37.4
Amounts payable to reinsurers	65.5	52.7
Deferred acquisition costs ceded	2.5	0.4
Other payables	48.0	61.0
Corporation tax payable	2.8	–
Deferred tax liability	16.5	18.7
Interest rate swap	2.0	3.7
Long-term debt	326.3	320.9
Total liabilities	**1,788.7**	**1,548.1**
Shareholders' equity		
Share capital	100.7	100.7
Own shares	(12.1)	(23.2)
Other reserves	866.2	881.6
Accumulated other comprehensive loss	(1.5)	(6.4)
Retained earnings	153.6	254.6
Total shareholders' equity attributable to equity shareholders of LHL	**1,106.9**	**1,207.3**
Non-controlling interest	0.4	0.5
Total shareholders' equity	**1,107.3**	**1,207.8**
Total liabilities and shareholders' equity	**2,896.0**	**2,755.9**
Basic book value per share	$5.53	$6.07
Fully converted book value per share	$5.48	$5.98

Consolidated statements of cash flows

	YTD 2017 $m	YTD 2016 $m
Cash flows (used in) from operating activities		
(Loss) profit before tax	(72.9)	150.4
Tax refunded (paid)	1.3	(1.3)
Depreciation	1.8	2.3
Interest expense on long-term debt	16.4	15.6
Interest and dividend income	(37.1)	(38.5)
Net amortisation of fixed maturity securities	2.8	5.0
Equity based compensation	(0.4)	10.7
Foreign exchange losses (gains)	9.4	(2.3)
Share of loss (profit) of associate	9.4	(5.1)
Net other investment income	(1.2)	(6.9)
Net realised (gains) losses and impairments	(9.1)	2.4
Net unrealised gains on interest rate swaps	(1.7)	(1.1)
Changes in operational assets and liabilities		
- Insurance and reinsurance contracts	52.0	(71.7)
- Other assets and liabilities	(9.4)	(10.6)
Net cash flows (used in) from operating activities	**(38.7)**	**48.9**
Cash flows from investing activities		
Interest and dividends received	37.6	38.4
Purchase of property, plant and equipment	(0.6)	(0.4)
Investment in associate	(19.1)	2.9
Purchase of investments	(1,196.1)	(1,214.0)
Proceeds on sale of investments	1,209.5	1,341.8
Net cash flows from investing activities	**31.3**	**168.7**
Cash flows used in financing activities		
Interest paid	(16.3)	(15.4)
Dividends paid	(29.9)	(178.9)
Dividends paid to minority interest holders	(0.6)	(0.5)
Distributions by trust	(3.9)	(2.9)
Net cash flows used in financing activities	**(50.7)**	**(197.7)**
Net (decrease) increase in cash and cash equivalents	**(58.1)**	**19.9**
Cash and cash equivalents at the beginning of year	308.8	291.8
Effect of exchange rate fluctuations on cash and cash equivalents	5.8	(2.9)
Cash and cash equivalents at end of year	**256.5**	**308.8**