

UNDERWRITING COMES **FIRST**

EFFECTIVELY **BALANCE** RISK AND RETURN

OPERATE **NIMBLY** THROUGH THE CYCLE

**lancashire**  
HOLDINGS LIMITED

*Unaudited condensed interim consolidated financial statements 30 June 2017*

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### FINANCIAL HIGHLIGHTS

	30 June 2017	30 June 2016	31 December 2016
Fully converted book value per share	\$6.23	\$6.40	\$5.98
Return on equity - ytd	5.9%	7.1%	13.5%
Return on tangible equity - ytd	6.8%	8.2%	15.7%
Operating return on average equity - ytd	4.5%	4.6%	11.0%

	Six months ended 30 June 2017	Six months ended 30 June 2016	Twelve months ended 31 December 2016
<b>Highlights (\$m)</b>			
Gross premiums written	381.2	430.6	633.9
Net premiums written	239.8	278.6	458.7
Profit before tax	66.7	56.6	150.4
Profit after tax*	68.5	59.8	153.8
Comprehensive income*	74.6	81.7	157.9
Net operating profit*	56.1	58.0	144.0
<b>Per share data</b>			
Diluted earnings per share	\$0.34	\$0.30	\$0.76
Diluted earnings per share - operating	\$0.28	\$0.29	\$0.71
<b>Financial ratios</b>			
Total investment return including internal currency hedging	1.5%	1.6%	2.1%
Net loss ratio	26.0%	29.1%	29.2%
Combined ratio	78.4%	76.2%	76.5%
Accident year loss ratio	43.3%	51.6%	46.2%

\* These amount 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 of 5.9 per cent for the first six months of 2017. 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 period with no significant losses. Our net loss ratio for the first six months of 2017 was 26.0 per cent, reflecting continuing favourable development on our prior year reserves. We therefore produced a strong result, with an RoE of 5.9 per cent for the first six months of 2017.

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 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. The RPI does not include new business or contracts with fundamental changes to terms and conditions or exposures. 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.

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)	30 June 2017
Class	%
Aviation (AV52)	90
Gulf of Mexico energy	93
Energy offshore worldwide	98
Marine	89
Property retrocession and reinsurance	95
Terrorism	94
<b>Lancashire (excluding Lloyd’s segment)</b>	<b>94</b>

RPI Lloyd’s segment	30 June 2017
Class	%
Aviation	99
Energy	96
Marine	97
Property retrocession and reinsurance	96
Terrorism	94
<b>Lloyd’s segment</b>	<b>96</b>

### UNDERWRITING RESULTS

	Six months ended		Six months ended	
	30 June 2017	30 June 2016	Change	Change
	\$m	\$m	\$m	%
<b>Gross premiums written</b>				
Property	130.2	150.7	(20.5)	(13.6)
Energy	72.4	88.3	(15.9)	(18.0)
Marine	43.1	27.5	15.6	56.7
Aviation	7.6	17.2	(9.6)	(55.8)
Lloyd's	127.9	146.9	(19.0)	(12.9)
<b>Total</b>	<b>381.2</b>	<b>430.6</b>	<b>(49.4)</b>	<b>(11.5)</b>

Gross premiums written decreased by 11.5 per cent in the first six months of 2017 compared to the first six months of 2016. Gross premiums earned decreased by 10.7 per cent 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 13.6 per cent in the first six months of 2017 compared to the first six months of 2016. The decrease 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 18.0 per cent in the first six months of 2017 compared to the first six months of 2016. The decrease 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 56.7 per cent in the first six months of 2017 compared to the first six months of 2016. The majority of the increase 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 the first half of 2017.

Aviation gross premiums written decreased by 55.8 per cent in the first six months of 2017 compared to the first six months of 2016. 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 12.9 per cent in the first six months of 2017 compared to the first six months of 2016. While there were reductions in most lines of business, 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 first six months of 2016 which have not recurred in 2017.

Ceded reinsurance premiums decreased by \$10.6 million, or 7.0 per cent for the six month period to 30 June 2017 compared to the same period in 2016. The decrease in spend is primarily due to the timing of renewals and less reinstatement premiums.

Net premiums earned as a proportion of net premiums written was 89.8 per cent in the six months to 30 June 2017, compared to 89.9 per cent in the same period in 2016.

The Group's net loss ratio was 26.0 per cent for the six month period to 30 June 2017 compared to 29.1 per cent for the same time in 2016. The accident year loss ratio, including the impact of foreign exchange revaluations, was 43.3 per cent compared to 51.6 per cent for the same period in 2016. There were no significant net losses reported during the first six months of 2017. The first six months of 2016 included losses for the Fort McMurray wildfires plus a few mid-sized energy claims.

Prior year favourable development was \$37.8 million for the six months to 30 June 2017. This 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 during the first six months 2017 by a 2016 accident year energy claim coming through.

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 2017	30 June 2016
	\$m	\$m
Property	10.2	21.6
Energy	10.2	17.7
Marine	11.5	9.3
Aviation	1.7	2.4
Lloyd's	4.2	6.0
<b>Total</b>	<b>37.8</b>	<b>57.0</b>

Note: Positive numbers denote favourable development.

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

	Six months ended	
	30 June 2017	30 June 2016
	\$m	\$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	–
<b>Total</b>	<b>37.8</b>	<b>57.0</b>

Note: Positive numbers denote favourable development.

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

### INVESTMENTS

Net investment income was \$14.7 million for the first six months of 2017, a decrease of 8.1 per cent 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 \$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 1.5 per cent for the first six months of 2017. Our fixed maturity portfolios generated solid returns 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. 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 represents 32.3 per cent of managed invested assets at 30 June 2017 compared to 31.1 per cent at 30 June 2016.

The managed portfolio was invested as follows:

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

Key investment portfolio statistics are:

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

### LANCASHIRE THIRD PARTY CAPITAL MANAGEMENT

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

	Six months ended	
	30 June 2017	30 June 2016
	\$m	\$m
Kinesis underwriting fees	1.4	1.1
Kinesis profit commission	5.4	3.2
Lloyd's fees and profit commission	1.1	2.9
<b>Total</b>	<b>7.9</b>	<b>7.2</b>
Share of profit of associate	1.4	1.7
<b>Total third party capital managed income</b>	<b>9.3</b>	<b>8.9</b>

The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from period to period. 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 per cent equity interest in the Kinesis vehicle. The reduction in Lloyd's fees and profit commission for the first six months of 2017 compared to the same period in 2016 is driven by the relative profitability of the underwriting years impacting each period.

### OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

	Six months ended	
	30 June 2017	30 June 2016
	\$m	\$m
Employee costs	28.2	32.1
Other operating expenses	21.8	19.1
<b>Total</b>	<b>50.0</b>	<b>51.2</b>

Employee remuneration costs for the first six months of 2017 were \$3.9 million lower than the respective period 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 the first six months of 2017 were \$2.7 million higher than the respective period in 2016. The increase is due to software costs and the timing of certain other expenses.

### EQUITY BASED COMPENSATION

Equity based compensation was \$2.8 million for the first six months of 2017 compared to \$8.4 million in the same period in 2016. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations. The lower charge 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 per cent on total capital and 22.6 per cent on total tangible capital. Total capital and total tangible capital at 30 June 2016 were \$1.612 billion and \$1.458 billion, respectively.

### DIVIDENDS

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

Lancashire announces that its Board 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 \$10.0 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>

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.

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

<sup>(1)</sup> Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

<sup>(2)</sup> 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).



## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months	Six months	Twelve months
		2017 \$m	2016 \$m	2016 \$m
Gross premiums written	2	381.2	430.6	633.9
Outwards reinsurance premiums	2	(141.4)	(152.0)	(175.2)
<b>Net premiums written</b>		<b>239.8</b>	<b>278.6</b>	<b>458.7</b>
Change in unearned premiums	2	(83.3)	(97.1)	25.7
Change in unearned premiums on premiums ceded	2	58.9	69.1	3.7
<b>Net premiums earned</b>		<b>215.4</b>	<b>250.6</b>	<b>488.1</b>
Net investment income	3	14.7	16.0	29.8
Net other investment (losses) income	3	(1.9)	(0.5)	6.9
Net realised gains (losses) and impairments	3	8.1	(7.4)	(2.4)
Share of profit of associate		1.4	1.7	5.1
Other income		7.9	7.2	20.5
Net foreign exchange gains		1.9	2.7	4.4
<b>Total net revenue</b>		<b>247.5</b>	<b>270.3</b>	<b>552.4</b>
Insurance losses and loss adjustment expenses	2, 6	77.1	134.9	212.2
Insurance losses and loss adjustment expenses recoverable	2, 6	(21.0)	(61.9)	(69.7)
<b>Net insurance losses</b>		<b>56.1</b>	<b>73.0</b>	<b>142.5</b>
Insurance acquisition expenses	2	65.6	68.3	135.1
Insurance acquisition expenses ceded	2	(2.7)	(1.3)	(3.0)
Other operating expenses		50.0	51.2	98.5
Equity based compensation		2.8	8.4	10.7
<b>Total expenses</b>		<b>171.8</b>	<b>199.6</b>	<b>383.8</b>
<b>Results of operating activities</b>		<b>75.7</b>	<b>70.7</b>	<b>168.6</b>
Financing costs		9.0	14.1	18.2
<b>Profit before tax</b>		<b>66.7</b>	<b>56.6</b>	<b>150.4</b>
Tax credit	4	2.1	3.3	3.9
<b>Profit after tax</b>		<b>68.8</b>	<b>59.9</b>	<b>154.3</b>
<b>Profit for the period attributable to:</b>				
Equity shareholders of LHL		68.5	59.8	153.8
Non-controlling interests		0.3	0.1	0.5
<b>Profit for the period</b>		<b>68.8</b>	<b>59.9</b>	<b>154.3</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>				
Net change in unrealised gains / losses on investments	3, 5	6.2	22.5	4.1
Tax provision on net change in unrealised gains / losses on investments	4, 5	(0.1)	(0.6)	–
<b>Other comprehensive income</b>		<b>6.1</b>	<b>21.9</b>	<b>4.1</b>
<b>Total comprehensive income for the period</b>		<b>74.9</b>	<b>81.8</b>	<b>158.4</b>
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of LHL		74.6	81.7	157.9
Non-controlling interests		0.3	0.1	0.5
<b>Total comprehensive income for the period</b>		<b>74.9</b>	<b>81.8</b>	<b>158.4</b>
<b>Earnings per share</b>				
Basic	9	\$0.34	\$0.30	\$0.77
Diluted	9	\$0.34	\$0.30	\$0.76

# CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2017

		30 June 2017	30 June 2016	31 December 2016
	Notes	\$m	\$m	\$m
<b>Assets</b>				
Cash and cash equivalents		278.7	325.8	308.8
Accrued interest receivable		6.7	6.7	6.6
Investments	5	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	6	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
<b>Total assets</b>		<b>2,914.3</b>	<b>3,076.3</b>	<b>2,755.9</b>
<b>Liabilities</b>				
Insurance contracts				
- Losses and loss adjustment expenses	6	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	7	18.8	23.4	18.7
Interest rate swap		3.4	8.4	3.7
Long-term debt		324.1	322.9	320.9
<b>Total liabilities</b>		<b>1,653.0</b>	<b>1,787.7</b>	<b>1,548.1</b>
<b>Shareholders' equity</b>				
Share capital	8	100.7	100.7	100.7
Own shares	8	(13.1)	(26.4)	(23.2)
Other reserves		870.6	883.1	881.6
Accumulated other comprehensive (loss) income	5	(0.3)	11.4	(6.4)
Retained earnings		303.2	319.7	254.6
<b>Total shareholders' equity attributable to equity shareholders of LHL</b>		<b>1,261.1</b>	<b>1,288.5</b>	<b>1,207.3</b>
<b>Non-controlling interests</b>		<b>0.2</b>	<b>0.1</b>	<b>0.5</b>
<b>Total shareholders' equity</b>		<b>1,261.3</b>	<b>1,288.6</b>	<b>1,207.8</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,914.3</b>	<b>3,076.3</b>	<b>2,755.9</b>

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 26 July 2017 and signed on its behalf by:



**Peter Clarke**  
Director/Chairman



**Elaine Whelan**  
Director/CFO

# CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2017

		Share capital	Own shares	Other reserves	Accumulated other comprehensive (loss) 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
<b>Balance as at 31 December 2015</b>		<b>100.7</b>	<b>(30.4)</b>	<b>880.8</b>	<b>(10.5)</b>	<b>279.7</b>	<b>1,220.3</b>	<b>0.5</b>	<b>1,220.8</b>
Total comprehensive income for the period		–	–	–	21.9	59.8	81.7	0.1	81.8
Distributed by trust	8	–	4.0	(6.1)	–	–	(2.1)	–	(2.1)
Dividends on common shares	8	–	–	–	–	(19.8)	(19.8)	–	(19.8)
Dividends paid to minority interest holders	10	–	–	–	–	–	–	(0.5)	(0.5)
Equity based compensation - expense		–	–	8.4	–	–	8.4	–	8.4
<b>Balance as at 30 June 2016</b>		<b>100.7</b>	<b>(26.4)</b>	<b>883.1</b>	<b>11.4</b>	<b>319.7</b>	<b>1,288.5</b>	<b>0.1</b>	<b>1,288.6</b>
Total comprehensive (loss) income for the period		–	–	–	(17.8)	94.0	76.2	0.4	76.6
Shares donated to trust	8	–	0.6	(0.6)	–	–	–	–	–
Distributed by trust	8	–	2.6	(3.4)	–	–	(0.8)	–	(0.8)
Dividends on common shares	8	–	–	–	–	(159.1)	(159.1)	–	(159.1)
Equity based compensation - expense		–	–	2.5	–	–	2.5	–	2.5
<b>Balance as at 31 December 2016</b>		<b>100.7</b>	<b>(23.2)</b>	<b>881.6</b>	<b>(6.4)</b>	<b>254.6</b>	<b>1,207.3</b>	<b>0.5</b>	<b>1,207.8</b>
Total comprehensive income for the period		–	–	–	6.1	68.5	74.6	0.3	74.9
Shares donated to trust	8	–	0.5	(0.5)	–	–	–	–	–
Distributed by trust	8	–	9.6	(13.3)	–	–	(3.7)	–	(3.7)
Dividends on common shares	8	–	–	–	–	(19.9)	(19.9)	–	(19.9)
Dividends paid to minority interest holders	10	–	–	–	–	–	–	(0.6)	(0.6)
Equity based compensation - expense		–	–	2.8	–	–	2.8	–	2.8
<b>Balance as at 30 June 2017</b>		<b>100.7</b>	<b>(13.1)</b>	<b>870.6</b>	<b>(0.3)</b>	<b>303.2</b>	<b>1,261.1</b>	<b>0.2</b>	<b>1,261.3</b>

## CONDENSED INTERIM STATEMENT OF CONSOLIDATED CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months	Six months	Twelve months
		2017 \$m	2016 \$m	2016 \$m
<b>Cash flows (used in) from operating activities</b>				
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 (gains)		5.7	(0.1)	(2.3)
Share of profit of associate		(1.4)	(1.7)	(5.1)
Net other investment losses (income)	3	1.9	0.5	(6.9)
Net realised (gains) losses and impairments	3	(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)
<b>Net cash flows (used in) from operating activities</b>		<b>(16.2)</b>	16.6	48.9
<b>Cash flows from investing activities</b>				
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	10	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
<b>Net cash flows from investing activities</b>		<b>14.8</b>	45.3	168.7
<b>Cash flows used in financing activities</b>				
Interest paid		(8.1)	(7.8)	(15.4)
Dividends paid	8	(19.9)	(19.8)	(178.9)
Dividend paid to minority interest holders	10	(0.6)	(0.5)	(0.5)
Distributions by trust		(3.7)	(2.1)	(2.9)
<b>Net cash flows used in financing activities</b>		<b>(32.3)</b>	(30.2)	(197.7)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(33.7)</b>	31.7	19.9
<b>Cash and cash equivalents at beginning of period</b>		<b>308.8</b>	291.8	291.8
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>		<b>3.6</b>	2.3	(2.9)
<b>Cash and cash equivalents at end of period</b>		<b>278.7</b>	325.8	308.8

## RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2017

### 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 2017. These will be consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016.

While there are amendments to existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2017, these are not currently relevant for the Group and do not impact the annual consolidated financial statements of the Group or the 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 accounting principles generally accepted under IFRS as adopted by the EU.

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.

### Seasonality of interim 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 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. The majority of the premiums for these lines of business are written during the first half of the fiscal year.

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

	2016		2015	
	\$m	%	\$m	%
January to June	430.6	67.9	423.6	66.1
July to December	203.3	32.1	217.5	33.9
Total	633.9	100.0	641.1	100.0

The Group's exposures to certain events, 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 2017		30 June 2016		31 December 2016	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
<b>100 year return period estimated net loss</b>							
Gulf of Mexico <sup>(1)</sup>	Hurricane	157.6	11.0	173.7	11.9	176.7	12.9
Non-Gulf of Mexico - U.S.	Hurricane	130.2	9.1	154.5	10.6	156.1	11.4
California	Earthquake	83.8	5.9	88.1	6.0	87.0	6.3
Pan-European	Windstorm	65.3	4.6	71.7	4.9	69.0	5.0
Japan	Typhoon	49.0	3.4	44.3	3.0	48.7	3.5
Japan	Earthquake	38.5	2.7	47.7	3.3	48.6	3.5
Pacific North West	Earthquake	27.9	1.9	29.1	2.0	27.6	2.0

<sup>(1)</sup> Landing hurricane from Florida to Texas.

## RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2017

Zones	Perils	30 June 2017		30 June 2016		31 December 2016	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
<b>250 year return period estimated net loss</b>							
Gulf of Mexico <sup>(1)</sup>	Hurricane	236.0	16.5	260.8	17.9	259.0	18.8
Non-Gulf of Mexico - U.S.	Hurricane	290.7	20.3	345.0	23.7	326.1	23.7
California	Earthquake	128.7	9.0	144.3	9.9	145.8	10.6
Pan-European	Windstorm	99.7	7.0	122.0	8.4	115.7	8.4
Japan	Typhoon	66.4	4.6	60.3	4.1	67.3	4.9
Japan	Earthquake	69.6	4.9	110.5	7.6	114.3	8.3
Pacific North West	Earthquake	68.4	4.8	67.1	4.6	65.7	4.8

<sup>(1)</sup> Landing hurricane from Florida to Texas.

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

### Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 101 to 128 in the Group's Annual Report and Accounts for the year ended 31 December 2016. The risks that were discussed on those pages were:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

These remain the most relevant risks and uncertainties for the Group.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in London and Bermuda. 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 registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. LHL's head office is Level 29, 20 Fenchurch Street, London, EC3M 3BY, United Kingdom.

### 2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. 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. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 105 to 108 of the Group's Annual Report and Accounts for the year ended 31 December 2016. 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.

### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2017	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
<b>Gross premiums written by geographic area</b>						
U.S. and Canada	60.8	4.8	–	–	58.9	124.5
Worldwide offshore	(0.1)	66.4	42.9	–	–	109.2
Worldwide, including the U.S. and Canada <sup>(1)</sup>	16.1	1.7	–	7.6	32.2	57.6
Europe	14.7	–	–	–	12.5	27.2
Far East	13.9	–	–	–	6.3	20.2
Worldwide, excluding the U.S. and Canada <sup>(2)</sup>	4.8	(0.1)	–	–	4.0	8.7
Middle East	2.0	–	–	–	0.6	2.6
Rest of world	18.0	(0.4)	0.2	–	13.4	31.2
<b>Total</b>	<b>130.2</b>	<b>72.4</b>	<b>43.1</b>	<b>7.6</b>	<b>127.9</b>	<b>381.2</b>
Outwards reinsurance premiums	(49.7)	(36.9)	(8.8)	(6.8)	(39.2)	(141.4)
Change in unearned premiums	(34.6)	(11.1)	(10.6)	3.9	(30.9)	(83.3)
Change in unearned premiums on premiums ceded	20.9	16.6	3.8	1.8	15.8	58.9
<b>Net premiums earned</b>	<b>66.8</b>	<b>41.0</b>	<b>27.5</b>	<b>6.5</b>	<b>73.6</b>	<b>215.4</b>
Insurance losses and loss adjustment expenses	(10.8)	(26.8)	(4.5)	0.8	(35.8)	(77.1)
Insurance losses and loss adjustment expenses recoverable	0.5	15.8	0.2	0.6	3.9	21.0
Insurance acquisition expenses	(15.3)	(19.8)	(10.3)	(3.4)	(16.8)	(65.6)
Insurance acquisition expenses ceded	1.4	0.8	0.3	0.1	0.1	2.7
<b>Net underwriting profit</b>	<b>42.6</b>	<b>11.0</b>	<b>13.2</b>	<b>4.6</b>	<b>25.0</b>	<b>96.4</b>
Net unallocated income and expenses						(29.7)
<b>Profit before tax</b>						<b>66.7</b>
Net loss ratio	15.4%	26.8%	15.6%	(21.5%)	43.3%	26.0%
Net acquisition cost ratio	20.8%	46.3%	36.4%	50.8 %	22.7%	29.2%
Expense ratio	–	–	–	–	–	23.2%
<b>Combined ratio</b>	<b>36.2%</b>	<b>73.1%</b>	<b>52.0%</b>	<b>29.3 %</b>	<b>66.0%</b>	<b>78.4%</b>

<sup>(1)</sup> Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

<sup>(2)</sup> Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2016	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
<b>Gross premiums written by geographic area</b>						
U.S. and Canada	59.2	0.2	–	–	67.4	126.8
Worldwide offshore	0.2	86.7	27.5	0.1	–	114.5
Worldwide, including the U.S. and Canada <sup>(1)</sup>	16.7	1.3	–	17.1	37.1	72.2
Europe	17.4	–	–	–	15.1	32.5
Far East	19.8	–	–	–	6.3	26.1
Worldwide, excluding the U.S. and Canada <sup>(2)</sup>	4.6	0.1	–	–	5.1	9.8
Middle East	6.8	–	–	–	1.5	8.3
Rest of world	26.0	–	–	–	14.4	40.4
<b>Total</b>	<b>150.7</b>	<b>88.3</b>	<b>27.5</b>	<b>17.2</b>	<b>146.9</b>	<b>430.6</b>
Outwards reinsurance premiums	(52.9)	(37.7)	(7.7)	(7.1)	(46.6)	(152.0)
Change in unearned premiums	(47.7)	(13.5)	(5.1)	1.7	(32.5)	(97.1)
Change in unearned premiums on premiums ceded	31.0	16.5	3.7	1.2	16.7	69.1
<b>Net premiums earned</b>	<b>81.1</b>	<b>53.6</b>	<b>18.4</b>	<b>13.0</b>	<b>84.5</b>	<b>250.6</b>
Insurance losses and loss adjustment expenses	0.7	(72.1)	1.0	0.3	(64.8)	(134.9)
Insurance losses and loss adjustment expenses recoverable	0.1	40.8	–	–	21.0	61.9
Insurance acquisition expenses	(14.8)	(25.2)	(4.8)	(3.8)	(19.7)	(68.3)
Insurance acquisition expenses ceded	0.4	0.6	0.1	0.1	0.1	1.3
<b>Net underwriting profit (loss)</b>	<b>67.5</b>	<b>(2.3)</b>	<b>14.7</b>	<b>9.6</b>	<b>21.1</b>	<b>110.6</b>
Net unallocated income and expenses						(54.0)
<b>Profit before tax</b>						<b>56.6</b>
Net loss ratio	(1.0)%	58.4%	(5.4)%	(2.3)%	51.8%	29.1%
Net acquisition cost ratio	17.8 %	45.9%	25.5 %	28.5 %	23.2%	26.7%
Expense ratio	–	–	–	–	–	20.4%
<b>Combined ratio</b>	<b>16.8 %</b>	<b>104.3%</b>	<b>20.1 %</b>	<b>26.2 %</b>	<b>75.0%</b>	<b>76.2%</b>

<sup>(1)</sup> Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

<sup>(2)</sup> Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.



## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2016	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
<b>Gross premiums written by geographic area</b>						
U.S. and Canada	84.0	0.4	–	–	95.3	179.7
Worldwide offshore	0.9	123.4	36.6	0.2	–	161.1
Worldwide, including the U.S. and Canada <sup>(1)</sup>	23.5	2.0	–	36.0	54.1	115.6
Europe	27.7	–	–	–	19.2	46.9
Far East	20.0	–	–	–	9.2	29.2
Worldwide, excluding the U.S. and Canada <sup>(2)</sup>	9.4	0.1	–	–	5.9	15.4
Middle East	11.5	–	–	–	2.0	13.5
Rest of world	42.5	0.1	0.6	–	29.3	72.5
<b>Total</b>	<b>219.5</b>	<b>126.0</b>	<b>37.2</b>	<b>36.2</b>	<b>215.0</b>	<b>633.9</b>
Outwards reinsurance premiums	(62.2)	(40.2)	(8.3)	(9.5)	(55.0)	(175.2)
Change in unearned premiums	(15.0)	20.9	6.6	0.6	12.6	25.7
Change in unearned premiums on premiums ceded	6.2	(1.2)	(0.1)	(1.8)	0.6	3.7
<b>Net premiums earned</b>	<b>148.5</b>	<b>105.5</b>	<b>35.4</b>	<b>25.5</b>	<b>173.2</b>	<b>488.1</b>
Insurance losses and loss adjustment expenses	(14.6)	(91.3)	(15.1)	1.1	(92.3)	(212.2)
Insurance losses and loss adjustment expenses recoverable	0.9	49.8	0.3	0.1	18.6	69.7
Insurance acquisition expenses	(29.4)	(48.2)	(10.2)	(8.1)	(39.2)	(135.1)
Insurance acquisition expenses ceded	1.4	0.6	0.5	0.3	0.2	3.0
<b>Net underwriting profit</b>	<b>106.8</b>	<b>16.4</b>	<b>10.9</b>	<b>18.9</b>	<b>60.5</b>	<b>213.5</b>
Net unallocated income and expenses						(63.1)
<b>Profit before tax</b>						<b>150.4</b>
Net loss ratio	9.2%	39.3%	41.8%	(4.7)%	42.6%	29.2%
Net acquisition cost ratio	18.9%	45.1%	27.4%	30.6 %	22.5%	27.1%
Expense ratio	–	–	–	–	–	20.2%
<b>Combined ratio</b>	<b>28.1%</b>	<b>84.4%</b>	<b>69.2%</b>	<b>25.9 %</b>	<b>65.1%</b>	<b>76.5%</b>

<sup>(1)</sup> Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

<sup>(2)</sup> Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the six months ended 30 June 2017	Net investment income and net other investment (losses) income <sup>(1)</sup> \$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 gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	13.8	(0.7)	5.1	18.2	5.4	23.6
Fixed maturity securities - at FVTPL	(0.9)	2.4	–	1.5	–	1.5
Equity securities - AFS	–	0.9	1.1	2.0	–	2.0
Hedge funds - at FVTPL	(1.7)	6.2	–	4.5	–	4.5
Other investments	0.7	(0.7)	–	–	(1.4)	(1.4)
Cash and cash equivalents	0.9	–	–	0.9	0.3	1.2
<b>Total investment return</b>	<b>12.8</b>	<b>8.1</b>	<b>6.2</b>	<b>27.1</b>	<b>4.3</b>	<b>31.4</b>

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

For the six months ended 30 June 2016	Net investment income and net other investment (losses) income <sup>(1)</sup> \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange gains (losses) \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	14.4	(1.3)	22.7	35.8	1.8	37.6
Fixed maturity securities - at FVTPL	0.1	–	–	0.1	–	0.1
Equity securities - AFS	0.2	(0.6)	(0.2)	(0.6)	–	(0.6)
Hedge funds - at FVTPL	(0.6)	(1.1)	–	(1.7)	–	(1.7)
Other investments	1.0	(4.4)	–	(3.4)	(0.3)	(3.7)
Cash and cash equivalents	0.4	–	–	0.4	(0.1)	0.3
<b>Total investment return</b>	<b>15.5</b>	<b>(7.4)</b>	<b>22.5</b>	<b>30.6</b>	<b>1.4</b>	<b>32.0</b>

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

For the year ended 31 December 2016	Net investment income and net other investment (losses) income <sup>(1)</sup> \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange losses \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	28.4	1.8	3.7	33.9	(0.5)	33.4
Fixed maturity securities - at FVTPL	1.2	–	–	1.2	–	1.2
Equity securities - AFS	0.3	(1.3)	0.4	(0.6)	–	(0.6)
Hedge funds - at FVTPL	4.3	(0.8)	–	3.5	–	3.5
Other investments	1.4	(2.1)	–	(0.7)	(0.2)	(0.9)
Cash and cash equivalents	1.1	–	–	1.1	(0.9)	0.2
<b>Total investment return</b>	<b>36.7</b>	<b>(2.4)</b>	<b>4.1</b>	<b>38.4</b>	<b>(1.6)</b>	<b>36.8</b>

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

Net realised gains (losses) and impairments includes impairment losses of \$0.3 million (30 June 2016 - \$2.8 million; 31 December 2016 - \$3.5 million) recognised on fixed maturity securities and \$nil (30 June 2016 - \$0.4 million; 31 December 2016 - \$0.4 million) recognised on equity securities held by the Group. 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 \$2.2 million (30 June 2016 - \$2.2 million; 31 December 2016 - \$4.5 million) of investment management, accounting and custodian fees.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 4. TAX

#### BERMUDA

LHL, LICL and LUK 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

LHL and the UK subsidiaries are subject to normal UK corporation tax on all their profits.

	Six months	Six months	Twelve months
	2017 \$m	2016 \$m	2016 \$m
Corporation tax (credit) charge for the period	–	(1.8)	2.7
Adjustments in respect of prior period corporation tax	(1.6)	(0.8)	(2.4)
Deferred tax credit for the period	(1.0)	(0.2)	(4.0)
Adjustments in respect of prior period deferred tax	1.4	–	0.6
Tax rate change adjustment	(0.9)	(0.5)	(0.8)
<b>Total tax credit</b>	<b>(2.1)</b>	<b>(3.3)</b>	<b>(3.9)</b>

	Six months	Six months	Twelve months
	2017 \$m	2016 \$m	2016 \$m
<b>Tax reconciliation<sup>(1)</sup></b>			
<b>Profit before tax</b>	<b>66.7</b>	56.6	150.4
<b>UK corporation tax at 19.3% (2016 - 20.0%)</b>	<b>12.8</b>	11.3	30.1
Non-taxable income	(16.7)	(16.1)	(34.4)
Adjustments in respect of prior period	(0.2)	(0.8)	(1.8)
Differences related to equity based compensation	(0.2)	0.9	0.6
Other expense permanent differences	1.1	2.7	3.1
Tax rate change adjustment	(0.9)	(0.5)	(0.8)
Unused tax losses not recognised for deferred tax	2.0	–	0.6
Utilisation of tax losses previously unrecognised for deferred tax	–	(0.8)	(1.3)
<b>Total tax credit</b>	<b>(2.1)</b>	<b>(3.3)</b>	<b>(3.9)</b>

<sup>(1)</sup> All tax reconciling balances have been classified as recurring items.

Due to the different tax paying jurisdictions, throughout the Group the current tax credit as a percentage of the Group's profit before tax is 3.1 per cent (30 June 2016 - 5.8 per cent; 31 December 2016 - 2.6 per cent).

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

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 5. INVESTMENTS

As at 30 June 2017	Cost or amortised cost \$m	Unrealised gain <sup>(1)</sup> \$m	Unrealised loss <sup>(1)</sup> \$m	Estimated fair value \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	56.4	–	–	56.4
- Fixed maturity funds	12.1	–	–	12.1
- U.S. treasuries	253.8	0.1	(1.4)	252.5
- Other government bonds	67.9	0.5	(0.4)	68.0
- U.S. municipal bonds	6.0	–	–	6.0
- U.S. government agency debt	93.8	0.1	(1.0)	92.9
- Asset backed securities	123.7	2.8	(0.3)	126.2
- U.S. government agency mortgage backed securities	123.7	0.6	(1.7)	122.6
- Non-agency mortgage backed securities	14.5	0.1	(0.3)	14.3
- Non-agency commercial mortgage backed securities	4.5	–	(0.1)	4.4
- Bank loans	122.6	0.7	(1.0)	122.3
- Corporate bonds	601.4	4.5	(1.6)	604.3
<b>Total fixed maturity securities - AFS</b>	<b>1,480.4</b>	<b>9.4</b>	<b>(7.8)</b>	<b>1,482.0</b>
- Fixed maturity securities - at FVTPL	25.7	–	–	25.7
- Equity securities - AFS	20.1	1.5	–	21.6
- Hedge funds - at FVTPL	156.3	6.1	(0.2)	162.2
- Other investments	–	0.3	(0.7)	(0.4)
<b>Total investments</b>	<b>1,682.5</b>	<b>17.3</b>	<b>(8.7)</b>	<b>1,691.1</b>

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

As at 30 June 2016	Cost or amortised cost \$m	Unrealised gain <sup>(1)</sup> \$m	Unrealised loss <sup>(1)</sup> \$m	Estimated fair value \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	14.5	–	–	14.5
- Fixed maturity funds	13.3	–	(2.5)	10.8
- U.S. treasuries	446.4	4.2	(0.2)	450.4
- Other government bonds	62.1	0.8	(1.3)	61.6
- U.S. municipal bonds	3.8	0.3	–	4.1
- U.S. government agency debt	3.9	–	–	3.9
- Asset backed securities	122.3	0.2	(1.3)	121.2
- U.S. government agency mortgage backed securities	159.4	3.0	(0.8)	161.6
- Non-agency mortgage backed securities	17.4	0.1	(0.5)	17.0
- Non-agency commercial mortgage backed securities	16.7	0.1	–	16.8
- Bank loans	121.3	0.3	(2.3)	119.3
- Corporate bonds	619.1	8.3	(0.9)	626.5
<b>Total fixed maturity securities - AFS</b>	<b>1,600.2</b>	<b>17.3</b>	<b>(9.8)</b>	<b>1,607.7</b>
- Fixed maturity securities - at FVTPL	24.9	–	(0.1)	24.8
- Equity securities - AFS	15.0	2.4	(2.6)	14.8
- Hedge funds - at FVTPL	135.5	3.8	(1.9)	137.4
- Other investments	–	0.3	(0.2)	0.1
<b>Total investments</b>	<b>1,775.6</b>	<b>23.8</b>	<b>(14.6)</b>	<b>1,784.8</b>

<sup>(1)</sup> 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 2017

As at 31 December 2016	Cost or amortised cost \$m	Unrealised gain <sup>(1)</sup> \$m	Unrealised loss <sup>(1)</sup> \$m	Estimated fair value \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	5.3	–	–	5.3
- Fixed maturity funds	14.5	–	–	14.5
- U.S. treasuries	307.8	0.1	(2.4)	305.5
- Other government bonds	67.6	0.1	(1.1)	66.6
- U.S. municipal bonds	1.0	0.1	–	1.1
- U.S. government agency debt	83.2	–	(1.3)	81.9
- Asset backed securities	111.1	0.3	(1.2)	110.2
- U.S. government agency mortgage backed securities	119.8	0.7	(2.2)	118.3
- Non-agency mortgage backed securities	14.6	0.1	(0.4)	14.3
- Non-agency commercial mortgage backed securities	9.7	–	(0.1)	9.6
- Bank loans	120.8	1.4	(0.6)	121.6
- Corporate bonds	600.2	1.7	(4.6)	597.3
<b>Total fixed maturity securities - AFS</b>	<b>1,455.6</b>	<b>4.5</b>	<b>(13.9)</b>	<b>1,446.2</b>
- Fixed maturity securities - at FVTPL	50.5	1.1	–	51.6
- Equity securities - AFS	20.8	0.8	(0.4)	21.2
- Hedge funds - at FVTPL	122.5	7.4	(0.5)	129.4
<b>Total investments</b>	<b>1,649.4</b>	<b>13.8</b>	<b>(14.8)</b>	<b>1,648.4</b>

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

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

	30 June 2017 \$m	30 June 2016 \$m	31 December 2016 \$m
Unrealised gains	<b>10.9</b>	19.7	5.3
Unrealised losses	<b>(7.8)</b>	(12.4)	(14.3)
Net foreign exchange (gains) losses on AFS securities	<b>(3.4)</b>	4.6	2.5
Tax (credit) provision	–	(0.5)	0.1
<b>Accumulated other comprehensive (loss) income</b>	<b>(0.3)</b>	11.4	(6.4)

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio (excluding the hedge fund portfolio - see Level (iii)) are provided by 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. The audit reports are available to clients of the firm and the reports are reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including index providers, broker-dealers and pricing vendors. 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 prices provided by the investment managers. 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 2017 and 30 June 2016 and the year ended 31 December 2016.

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. The Group determines securities classified as Level (i) to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

### LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets, for similar assets or liabilities, 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 modeled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

The Group determines securities classified as Level (ii) to include short-term and fixed maturity investments such as:

- Short-term investments;
- Fixed maturity funds;
- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency debt;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Non-agency commercial mortgage backed securities;
- Bank loans;
- Corporate bonds; and
- OTC derivatives such as, options, forward foreign exchange contracts, interest rate swaps and credit default swaps.

### LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. The Group classifies hedge funds as Level (iii) assets as the valuation techniques incorporate both observable and unobservable inputs.

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. 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 do not anticipate any material variance between estimated valuations and actual valuations.

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 based on the lowest level input that is significant to the fair value measurement as a whole.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

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

As at 30 June 2017	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	55.0	1.4	–	56.4
- Fixed maturity funds	–	12.1	–	12.1
- U.S. treasuries	252.5	–	–	252.5
- Other government bonds	–	68.0	–	68.0
- U.S. municipal bonds	–	6.0	–	6.0
- U.S. government agency debt	–	92.9	–	92.9
- Asset backed securities	–	126.2	–	126.2
- U.S. government agency mortgage backed securities	–	122.6	–	122.6
- Non-agency mortgage backed securities	–	14.3	–	14.3
- Non-agency commercial mortgage backed securities	–	4.4	–	4.4
- Bank loans	–	122.3	–	122.3
- Corporate bonds	–	604.3	–	604.3
<b>Total fixed maturity securities - AFS</b>	<b>307.5</b>	<b>1,174.5</b>	<b>–</b>	<b>1,482.0</b>
- Fixed maturity securities - at FVTPL	–	25.7	–	25.7
- Equity securities - AFS	21.6	–	–	21.6
- Hedge funds - at FVTPL	–	–	162.2	162.2
- Other investments	–	(0.4)	–	(0.4)
<b>Total investments</b>	<b>329.1</b>	<b>1,199.8</b>	<b>162.2</b>	<b>1,691.1</b>
<hr/>				
As at 30 June 2016	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	13.8	0.7	–	14.5
- Fixed maturity funds	–	10.8	–	10.8
- U.S. treasuries	450.4	–	–	450.4
- Other government bonds	–	61.6	–	61.6
- U.S. municipal bonds	–	4.1	–	4.1
- U.S. government agency debt	–	3.9	–	3.9
- Asset backed securities	–	121.2	–	121.2
- U.S. government agency mortgage backed securities	–	161.6	–	161.6
- Non-agency mortgage backed securities	–	17.0	–	17.0
- Non-agency commercial mortgage backed securities	–	16.8	–	16.8
- Bank loans	–	119.3	–	119.3
- Corporate bonds	–	626.5	–	626.5
<b>Total fixed maturity securities - AFS</b>	<b>464.2</b>	<b>1,143.5</b>	<b>–</b>	<b>1,607.7</b>
- Fixed maturity securities - at FVTPL	–	24.8	–	24.8
- Equity securities - AFS	14.8	–	–	14.8
- Hedge funds - at FVTPL	–	–	137.4	137.4
- Other investments	–	0.1	–	0.1
<b>Total investments</b>	<b>479.0</b>	<b>1,168.4</b>	<b>137.4</b>	<b>1,784.8</b>

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

As at 31 December 2016	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
<b>Fixed maturity securities - AFS</b>				
- Short-term investments	4.0	1.3	–	5.3
- Fixed maturity funds	–	14.5	–	14.5
- U.S. treasuries	305.5	–	–	305.5
- Other government bonds	–	66.6	–	66.6
- U.S. municipal bonds	–	1.1	–	1.1
- U.S. government agency debt	–	81.9	–	81.9
- Asset backed securities	–	110.2	–	110.2
- U.S. government agency mortgage backed securities	–	118.3	–	118.3
- Non-agency mortgage backed securities	–	14.3	–	14.3
- Non-agency commercial mortgage backed securities	–	9.6	–	9.6
- Bank loans	–	121.6	–	121.6
- Corporate bonds	–	597.3	–	597.3
<b>Total fixed maturity securities - AFS</b>	<b>309.5</b>	<b>1,136.7</b>	<b>–</b>	<b>1,446.2</b>
- Fixed maturity securities - at FVTPL	–	51.6	–	51.6
- Equity securities - AFS	21.2	–	–	21.2
- Hedge funds - at FVTPL	–	–	129.4	129.4
<b>Total investments</b>	<b>330.7</b>	<b>1,188.3</b>	<b>129.4</b>	<b>1,648.4</b>

There have been no transfers between Levels (i) and (ii) therefore no reconciliations have been presented.

The table below analyses the movements in hedge funds classified as Level (iii) investments during the six months ended 30 June 2017 and 30 June 2016 and for the year ended 31 December 2016:

	Hedge funds \$m
<b>As at 31 December 2015</b>	<b>156.0</b>
Sales	(17.0)
Total net realised and unrealised losses recognised in profit or loss	(1.6)
<b>As at 30 June 2016</b>	<b>137.4</b>
Sales	(13.3)
Total net realised and unrealised gains recognised in profit or loss	5.3
<b>As at 31 December 2016</b>	<b>129.4</b>
Purchases	<b>123.6</b>
Sales	<b>(95.4)</b>
Total net realised and unrealised gains recognised in profit or loss	<b>4.6</b>
<b>As at 30 June 2017</b>	<b>162.2</b>



## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 6. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
<b>As at 31 December 2015</b>	671.0	(83.9)	587.1
Net incurred losses for:			
Prior years	(59.4)	2.4	(57.0)
Current year	194.3	(64.3)	130.0
Exchange adjustments	3.5	0.6	4.1
<b>Incurred losses and loss adjustment expenses</b>	138.4	(61.3)	77.1
Net paid losses for:			
Prior years	86.7	(3.8)	82.9
Current year	10.6	(1.9)	8.7
<b>Paid losses and loss adjustment expenses</b>	97.3	(5.7)	91.6
<b>As at 30 June 2016</b>	712.1	(139.5)	572.6
Net incurred losses for:			
Prior years	(30.3)	1.5	(28.8)
Current year	107.6	(9.3)	98.3
Exchange adjustments	(7.3)	0.8	(6.5)
<b>Incurred losses and loss adjustment expenses</b>	70.0	(7.0)	63.0
Net paid losses for:			
Prior years	52.7	(4.2)	48.5
Current year	49.6	(5.6)	44.0
<b>Paid losses and loss adjustment expenses</b>	102.3	(9.8)	92.5
<b>As at 31 December 2016</b>	679.8	(136.7)	543.1
Net incurred losses for:			
Prior years	(19.5)	(18.3)	(37.8)
Current year	96.6	(2.7)	93.9
Exchange adjustments	12.0	(0.1)	11.9
<b>Incurred losses and loss adjustment expenses</b>	89.1	(21.1)	68.0
Net paid losses for:			
Prior years	113.2	(9.3)	103.9
Current year	7.7	(0.1)	7.6
<b>Paid losses and loss adjustment expenses</b>	120.9	(9.4)	111.5
<b>As at 30 June 2017</b>	<b>648.0</b>	<b>(148.4)</b>	<b>499.6</b>

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

	30 June 2017		30 June 2016		31 December 2016	
	\$m	%	\$m	%	\$m	%
Outstanding losses	290.0	44.8	283.0	39.8	328.1	48.3
Additional case reserves	158.8	24.5	181.9	25.5	144.5	21.3
Losses incurred but not reported	199.2	30.7	247.2	34.7	207.2	30.4
<b>Total</b>	<b>648.0</b>	<b>100.0</b>	712.1	100.0	679.8	100.0

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 2017

### 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 2017	30 June 2016	31 December 2016
	\$m	\$m	\$m
<b>Favourable (unfavourable) development</b>			
2007 accident year and prior	0.3	0.3	(0.4)
2008 accident year	0.5	0.8	1.6
2009 accident year	0.1	0.5	(18.0)
2010 accident year	1.6	1.4	3.2
2011 accident year	4.3	8.3	9.9
2012 accident year	3.1	4.0	13.5
2013 accident year	2.6	5.1	(1.6)
2014 accident year	2.9	10.2	19.9
2015 accident year	14.2	26.4	57.7
2016 accident year	8.2	–	–
<b>Total favourable development</b>	<b>37.8</b>	<b>57.0</b>	<b>85.8</b>

### 7. DEFERRED TAX

	30 June 2017	30 June 2016	31 December 2016
	\$m	\$m	\$m
Equity based compensation	(3.4)	(4.1)	(3.8)
Claims equalisation reserves	8.8	12.1	8.1
Syndicate underwriting profits	1.9	3.8	2.7
Syndicate participation rights	12.6	13.6	12.8
Other temporary differences	(1.0)	(0.2)	(0.9)
Tax losses carried forward	(0.1)	(1.8)	(0.2)
<b>Net deferred tax liability</b>	<b>18.8</b>	<b>23.4</b>	<b>18.7</b>

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 in 2017 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of \$13.2 million (30 June 2016 - \$12.0 million; 31 December 2016 - \$11.4 million) has not been recognised in relation to unused tax losses carried forward as, at present, the related tax benefit is not expected to be realised through future taxable profits.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2015 and Finance Act 2016 reducing the rate to 19 per cent from 1 April 2017 and to 17 per cent from 1 April 2020.

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

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 8. SHARE CAPITAL

As at 30 June 2017 and 2016 and 31 December 2016 and 2015	Number	\$m
Authorised ordinary shares of \$0.50 each	3,000,000,000	1,500.0
Allocated, called up and fully paid	201,341,918	100.7

Own shares	Number held in treasury	\$m	Number held in trust	\$m	Total number of own shares	\$m
<b>As at 31 December 2015</b>	1,841,526	18.1	1,302,534	12.3	3,144,060	30.4
Shares distributed	–	–	(430,503)	(4.0)	(430,503)	(4.0)
<b>As at 30 June 2016</b>	1,841,526	18.1	872,031	8.3	2,713,557	26.4
Shares distributed	–	–	(249,530)	(2.6)	(249,530)	(2.6)
Shares donated to trust	(426,468)	(4.1)	426,468	3.5	–	(0.6)
<b>As at 31 December 2016</b>	1,415,058	14.0	1,048,969	9.2	2,464,027	23.2
Shares distributed	–	–	(1,080,384)	(9.6)	(1,080,384)	(9.6)
Shares donated to trust	(500,535)	(4.9)	500,535	4.4	–	(0.5)
<b>As at 30 June 2017</b>	<b>914,523</b>	<b>9.1</b>	<b>469,120</b>	<b>4.0</b>	<b>1,383,643</b>	<b>13.1</b>

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2017 was 200,427,395 (30 June 2016 - 199,500,392; 31 December 2016 - 199,926,860).

#### SHARE REPURCHASES

At the AGM held on 3 May 2017 the Group's shareholders approved the renewal of the repurchase programme authorising the repurchase of a maximum of 20,134,191 shares, with such authority to expire at the conclusion of the 2018 AGM or, if earlier, 15 months from the date the resolution approving the repurchase programme was passed.

During the periods ended 30 June 2017, 30 June 2016 and 31 December 2016 no shares were repurchased by the Group under the share repurchase programme.

#### DIVIDENDS

The Board of Directors has authorised the following dividends:

Type	Per share amount	Record date	Payment date	\$m
Final	\$0.10	26 Feb 2016	23 Mar 2016	19.8
Interim	\$0.05	5 Aug 2016	31 Aug 2016	10.0
Special	\$0.75	18 Nov 2016	14 Dec 2016	149.1
Final	\$0.10	24 Feb 2017	22 Mar 2017	19.9

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 9. EARNINGS PER SHARE

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

	Six months 2017 \$m	Six months 2016 \$m	Twelve months 2016 \$m
Profit for the period attributable to equity shareholders	68.5	59.8	153.8

	Six months 2017 Number of shares	Six months 2016 Number of shares	Twelve months 2016 Number of shares
Basic weighted average number of shares	199,471,486	198,370,623	198,565,378
Dilutive effect of RSS	2,334,583	2,869,795	2,901,049
Diluted weighted average number of shares	201,806,069	201,240,418	201,466,427

Earnings per share	Six months 2017 \$m	Six months 2016 \$m	Twelve months 2016 \$m
Basic	\$0.34	\$0.30	\$0.77
Diluted	\$0.34	\$0.30	\$0.76

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.

### 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 2017 \$m	Six months 2016 \$m	Twelve months 2016 \$m
Short-term compensation	2.6	2.1	3.2
Equity based compensation	0.8	2.0	3.3
Directors' fees and expenses	1.1	1.1	2.2
<b>Total</b>	<b>4.5</b>	<b>5.2</b>	<b>8.7</b>

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 KCML 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 2017 the Group recognised \$6.8 million (30 June 2016 - \$4.3 million; 31 December 2016 - \$10.6 million) of service fees and profit commissions in other income in relation to this agreement.

During the period ended 30 June 2017, the Group committed an additional \$1.0 million (30 June 2016 - \$1.0 million; 31 December 2016 - \$25.8 million) of capital to KHL. During the period ended 30 June 2017, KHL returned \$25.5 million of capital to the Group (30 June 2016 - \$25.4 million; 31 December 2016 - \$28.7 million).

During the period ended 30 June 2017, a dividend of \$0.6 million was distributed to minority interest holders (30 June 2016 - \$0.5 million, 31 December 2016 - \$0.5 million).

### 11. COMMITMENTS

As at 30 June 2017 the Group has a commitment of \$100.0 million (30 June 2016 - \$50.0 million; 31 December 2016 - \$50.0 million) relating to a credit facility fund.

## NOTES TO THE ACCOUNTS

For the six months ended 30 June 2017

### 12. SUBSEQUENT EVENTS

#### DIVIDEND

On 26 July 2017 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 11 August 2017, with a settlement date of 6 September 2017. The total dividend payable, will be approximately \$10.0 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

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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:

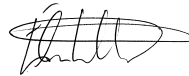
- an indication of important events during the first six months of 2017 and their impact on the unaudited condensed interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- related party transactions that have taken place in the first six months of 2017 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 44-45 of the LHL 2016 Annual Report and Accounts. The individuals responsible for authorising the responsibility statement on behalf of the Board on 26 July 2017 are:



**Peter Clarke**

**Director/Chairman**



**Elaine Whelan**

**Director/CFO**



## INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

### Conclusion

We have been engaged by Lancashire Holdings Limited (“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 2017 which comprises the condensed interim consolidated statement of comprehensive 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules (“DTR”) of the UK’s Financial Conduct Authority (“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 have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim consolidated financial statements.

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

### 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 95 the annual consolidated financial statements of the Company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of interim consolidated financial statements included in this half-yearly financial report has been prepared 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’s 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

26 July 2017

## Glossary

### Accident year loss ratio

Ratio, in per cent, using the 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

### AGM

Annual General Meeting

### 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

### BMA

Bermuda Monetary Authority

### Board of Directors

Unless otherwise stated refers to the LHL Board of Directors

### Book value per share

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

### BSX

Bermuda Stock Exchange

### Cathedral; Cathedral Group

Refers to CCL and all direct and indirect subsidiaries of CCL

### 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 EPS

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 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

### Expense ratio

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

### Fully converted book value per share (FCBVS)

Calculated by dividing the value of the total shareholders' equity and dilutive restricted stock units as calculated under the treasury method, by the sum of all shares, including equity compensation awards 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

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



## Glossary

### International Accounting Standards Board (IASB)

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

### IRR

Internal rate of return

### KCML

Kinesis Capital Management Limited

### KCMMSL

KCM Marketing Services Limited

### KHL

Kinesis Holdings I Limited

### Kinesis

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

### LHL

Lancashire Holdings Limited

### LICL

Lancashire Insurance Company Limited

### Lloyd's

The Society of Lloyd's

### LOC

Letter of credit

### Losses

Demand by an insured for indemnity under an insurance contract

### LSE

London Stock Exchange

### LUK

Lancashire Insurance Company (UK) Limited

### M&A

Mergers and acquisitions

### Moody's Investor Service (Moody's)

Moody's is a leading provider of credit ratings, research and risk analysis

### NAV

Net asset value

### Net acquisition cost ratio

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

### Net loss ratio

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

### Net operating profit

Profit after tax attributable to Lancashire excluding realised gains and losses, net of impairments, foreign exchange gains and losses and tax. Lancashire believes the reporting of net operating profit available to Lancashire helps the understanding of results by highlighting the underlying profitability of Lancashire's core insurance and reinsurance business

### 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 CUL. The group provides capital to support 57.8 per cent of the stamp

### Syndicate 3010

Lloyd's Syndicate 3010, managed by CUL. The group provides capital to support 100.0 per cent 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

## 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; ANY CHANGE 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 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.