LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 3.1% IN Q3 2016 AND 10.5% YEAR TO DATE
COMBINED RATIO OF 73.8% IN Q3 2016, 75.6% YEAR TO DATE
SPECIAL DIVIDEND OF $0.75 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $6.55 AS AT 30 SEPTEMBER 2016

3 November 2016
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the third quarter of 2016 and the nine months ended 30 September 2016.

Financial highlights

	30 September 2016	30 September 2015
Fully converted book value per share	**$6.55**	**$6.78**
Return on equity[1,2] – Q3	**3.1%**	**2.6%**
Return on equity[1,2] – YTD	**10.5%**	**9.3%**
Return on tangible equity[3] – Q3	**3.7%**	**2.9%**
Return on tangible equity[3] – YTD	**12.2%**	**7.6%**
Operating return on average equity – Q3	**3.1%**	**2.7%**
Operating return on average equity – YTD	**7.6%**	**9.0%**
Special dividends per common share[4]	**$0.75**	**$0.95**

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on equity including warrant exercises was 2.6% for the third quarter of 2015 and 7.2% for the first nine months of 2015. All remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on the 2016 return on equity.
[3] Return on tangible equity excludes goodwill and other intangible assets but includes warrant exercises.
[4] See "Dividends" below for Record Date and Dividend Payment Date.

Financial highlights:

	Three months ended		Nine months ended	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Highlights ($m)				
Gross premiums written	108.2	120.4	538.8	544.0
Net premiums written	92.0	110.1	370.6	394.4
Profit before tax	42.9	32.9	99.5	121.5
Profit after tax[1]	42.9	34.1	102.7	126.7
Comprehensive income[1]	41.6	30.3	123.3	124.8
Net operating profit[1]	40.1	37.1	98.1	127.6
Per share data				
Diluted earnings per share	$0.21	$0.17	$0.51	$0.64
Diluted earnings per share – operating	$0.20	$0.18	$0.49	$0.65
Financial ratios				
Total investment return including internal currency hedging	0.6%	(0.2%)	2.2%	0.8%
Total investment return excluding internal currency hedging	0.5%	(0.3%)	2.2%	0.5%
Net loss ratio	25.3%	26.4%	28.0%	30.2%
Combined ratio	73.8%	70.2%	75.6%	73.5%
Accident year loss ratio	29.6%	47.2%	45.0%	50.6%

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

Alex Maloney, Group Chief Executive Officer, commented:

"The Group's results for the third quarter have once again been strong. Our RoE of 3.1% for the quarter and 10.5% for the year to date demonstrate our ability to deliver excellent results through the insurance cycle and during challenging market conditions. These results are a tribute to the quality of our people throughout the Group and an illustration of the fruits of disciplined underwriting and prudent risk selection.

In early October 2016 (and therefore not within this financial reporting period) Hurricane Matthew ripped through the Caribbean and onwards to impact Florida, Georgia and the Carolinas. The terrible toll of lives, principally in Haiti, was a further reminder of the devastating power of the forces of nature. On these occasions our thoughts go out to those personally affected by such tragedies. However, as an insured event affecting the US, the level of insured damage was less than it might have been in other circumstances. Matthew is an attritional loss for the insurance sector as a whole, certainly not of a size to constitute the "market moving event" which sooner or later will occur. However, it is a timely reminder of the volatility and unpredictability of loss events in our industry and will contribute to the further erosion of margins and profitability across the sector.

These results and the salutary lesson of Matthew demonstrate the value of our strategy of managing the insurance cycle, which during the current soft market phase demands that we maintain a core book of business. Our strategy is unchanged as we are working to maintain our long term profitable underwriting relationships whilst managing our outwards exposure through the purchase of well-priced targeted reinsurance."

Elaine Whelan, Group Chief Financial Officer, commented:

"With limited loss activity in the quarter, we have produced another strong result with a return on equity of 3.1%, bringing us to 10.5% for the year to date. Our net loss ratio was 25.3%. Given the continued heightened volatility in the investment markets, we were pleased with our investment return of 0.6%, or 2.2% for the year to date.

Our outlook for 2017 is a continuation of current market trends. However, we expect to be able to maintain our core book and consequently operate at a similar capital level to this year. We are therefore returning approximately $150.0 million of capital via a special dividend. That represents 121.7% of comprehensive income for the year to date. We have now returned $2.7 billion, or 104.9% of total comprehensive income, since inception."

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 2015, with our Lloyd's segment shown separately in order to aid comparability:

RPI Lancashire (excluding Lloyd's segment)

Class	YTD 2016	Q3 2016	Q2 2016	Q1 2016
Aviation (AV52)	90 %	88 %	90 %	90 %
Gulf of Mexico energy	94 %	88 %	94 %	86 %
Energy offshore worldwide	87 %	84 %	86 %	87 %
Marine	89 %	91 %	82 %	92 %
Property retrocession and reinsurance	88 %	77 %	90 %	93 %
Terrorism	87 %	89 %	89 %	86 %
Lancashire, (excluding Lloyd's segment)	**89%**	**81%**	**90%**	**90%**

RPI (Lloyd's segment)

Class	YTD 2016	Q3 2016	Q2 2016	Q1 2016
Aviation	97 %	99 %	98 %	97 %
Energy	89 %	90 %	90 %	86 %
Marine	96 %	95 %	98 %	97 %
Property retrocession and reinsurance	95 %	97 %	93 %	94 %
Terrorism	97 %	93 %	99 %	91 %
Lloyd's segment	**94%**	**96%**	**93%**	**95%**

Underwriting results

Gross premiums written

	Q3				YTD			
	2016	**2015**	**Change**	**Change**	**2016**	**2015**	**Change**	**Change**
	$m	**$m**	**$m**	**%**	**$m**	**$m**	**$m**	**%**
Property	39.7	40.8	(1.1)	(2.7)	190.4	169.4	21.0	12.4
Energy	14.1	18.9	(4.8)	(25.4)	102.4	97.0	5.4	5.6
Marine	4.9	4.7	0.2	4.3	32.4	38.4	(6.0)	(15.6)
Aviation	11.0	9.3	1.7	18.3	28.2	27.0	1.2	4.4
Lloyd’s	38.5	46.7	(8.2)	(17.6)	185.4	212.2	(26.8)	(12.6)
Total	**108.2**	**120.4**	**(12.2)**	**(10.1)**	**538.8**	**544.0**	**(5.2)**	**(1.0)**

Gross premiums written decreased by 10.1% in the third quarter of 2016 compared to the same period in 2015. In 2016 to date, gross premiums written decreased by 1.0% compared to the first nine months of 2015. The Group’s five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 2.7% for the third quarter of 2016 compared to the same period in 2015 and increased by 12.4% in the first nine months of 2016 compared to the first nine months of 2015. For the quarter, although the dollar movement was small, it included reductions in the political risk book which were partly offset by an increase in the property catastrophe excess of loss book. While we continued to see good new business flow in the political risk book, there was less new business than the same quarter in the prior year. Business flow in the political risk class is generally less predictable than other classes of business due to the lead time and specific nature of each deal. The increase in the property catastrophe excess of loss book in the quarter was driven by the timing of renewal of non-annual deals. For the year to date, the majority of the increase was driven by new business in the political risk and property catastrophe excess of loss classes, partly offset by reductions in the terrorism class due to the impact of non-annual policies. Rates continued to experience pressure in the property catastrophe excess of loss class, but the majority of that book has now renewed for the year.

Energy gross premiums written decreased by 25.4% for the third quarter of 2016 compared to the same period in 2015 and increased by 5.6% in the first nine months of 2016 compared to the first nine months of 2015. The worldwide offshore book was responsible for the decrease in the quarter. Continuing exposure reductions, due to the low oil price and timing of non-annual contracts, contributed to the decrease. The Gulf of Mexico book was responsible for most of the increase in the year to date. Some new business was added in this class, but the vast majority of the increase is driven by the timing impact of multi-year deals written in 2014, plus the cancellation and replacement of certain contracts. Year on year, the variability in the Gulf of Mexico gross premiums written has a less significant impact on gross premiums earned for that class. For the year to date, the worldwide offshore book continued to experience price and exposure reductions due to the relatively low oil price, offset somewhat by the timing of renewal of non-annual deals.

Marine gross premiums written increased by 4.3% for the third quarter of 2016 compared to the same period in 2015 and decreased by 15.6% in the first nine months of 2016 compared to the first nine months of 2015. The dollar movement in the quarter is negligible. The majority of the year to date decrease is driven by the timing of non-annual renewals together with a reduction in prior underwriting year risk-attaching business, due to changes in the underlying exposure.

Aviation gross premiums written increased by 18.3% for the third quarter of 2016 compared to the same period in 2015 and increased by 4.4% in the first nine months of 2016 compared to the first nine months of 2015. The third quarter is not a major renewal period for the aviation segment. The dollar increases for both the quarter and year to date are not significant.

In the Lloyd's segment gross premiums written decreased by 17.6% for the third quarter of 2016 compared to the same period in 2015 and decreased by 12.6% in the first nine months of 2016 compared to the first nine months of 2015. There were reductions across all lines of business, for both the quarter and year to date, with rates continuing to come under pressure due to over-capacity in the market.

****

Ceded reinsurance premiums increased by $5.9 million, or 57.3%, for the quarter, and increased by $18.6 million, or 12.4%, for the nine months ended 30 September 2016, in each case compared to the same periods in 2015. Favourable conditions in the reinsurance market have generally allowed both Lancashire and Cathedral to buy more reinsurance limit, by adding new layers and attaching at lower loss levels for around the same outlay. The increased spend for the quarter and year to date is largely due to higher cessions to various outwards facilities and additional reinstatement premiums.

****

Net premiums earned as a proportion of net premiums written was 118.8% in the third quarter of 2016 compared to 126.0% for the same period in 2015 and 97.1% in the nine months to 30 September 2016 compared to 110.6% in the same period in 2015. The reduced earnings percentages are due to an increase in longer tenor business written plus increased reinsurance spend.

****

The Group's net loss ratio for the third quarter of 2016 was 25.3% compared to 26.4% for the same period in 2015 and 28.0% for the nine months ended 30 September 2016 compared to 30.2% for the same period in 2015. The accident year loss ratio for the third quarter of 2016, including the impact of foreign exchange revaluations, was 29.6% compared to 47.2% for the same period in 2015 and 45.0% for the nine months ended 30 September 2016 compared to 50.6% for the same period in 2015. There were no significant net losses in the third quarter of either year. Similarly, there were no significant net losses in the first nine months of 2016 and 2015, although both years included some mid-sized energy losses. Attritional losses have otherwise been low.

Prior year favourable development for the third quarter of 2016 was $4.9 million, compared to favourable development of $29.9 million for the third quarter of 2015. Favourable development was $61.9 million for the nine months to 30 September 2016, compared to favourable development of $91.1 million for the same period in 2015. While there was some adverse development on one specific marine loss this quarter, the overall net favourable development in all periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The first quarter of 2015 also included a recovery on our 2011 Thai flood loss on the settlement of a claim.

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

	Q3		YTD	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Property	9.0	3.4	30.6	31.1
Energy	3.0	9.3	20.7	26.7
Marine	(8.0)	3.6	1.3	10.7
Aviation	0.8	2.5	3.2	2.3
Lloyd's	0.1	11.1	6.1	20.3
Total	**4.9**	**29.9**	**61.9**	**91.1**

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2016 and 2015:

	Nine months ended 30 September 2016	**Nine months ended 30 September 2015**
	$m	**$m**
2006 accident year	0.2	0.9
2007 accident year	(0.9)	0.9
2008 accident year	1.1	(2.4)
2009 accident year	0.4	3.8
2010 accident year	1.8	(2.2)
2011 accident year	8.2	23.2
2012 accident year	4.8	4.9
2013 accident year	(4.8)	28.4
2014 accident year	13.7	33.6
2015 accident year	37.4	–
Total	**61.9**	**91.1**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 37.0% at 30 September 2016 compared to 35.4% at 30 September 2015.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $7.0 million for the third quarter of 2016, a decrease of 10.3% from the third quarter of 2015. Net investment income was $23.0 million for the first nine months of 2016, an increase of 2.7% compared to the same period in 2015. 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 $11.6 million for the third quarter of 2016 compared to a loss of $3.7 million for the third quarter of 2015, and a gain of $41.6 million for the first nine months of 2016 compared to a gain of $17.4 million for the corresponding period in 2015.

The investment portfolio returned 0.6% during the third quarter of 2016. Despite the increase in treasury yields, the Group's high quality fixed maturity portfolio produced a positive return, driven by narrowing credit spreads plus coupons received. The portfolio also benefited from strong returns in our bank loan, hedge fund and equity portfolios, as those portfolios performed well in the risk-on tone during the quarter. During the third quarter of 2015 a small loss of 0.2% on the portfolio was driven by heightened market volatility.

For the year to date, the investment portfolio has returned 2.2% driven by the performance of the Group's high quality fixed maturity, bank loan and equity portfolios. The portfolio has benefited from a notable decline in treasury yields and narrowing of credit spreads in 2016. During the first nine months of 2015 the portfolio returned 0.8%, driven by the positive returns in the fixed maturity and bank loan portfolios. While both periods benefited from a decline in treasury yields, the prior year to date return was dampened by widening credit spreads in the fixed maturity portfolios.

The corporate bond allocation represented 30.7% of managed invested assets at 30 September 2016 compared to 31.3% at 30 September 2015.

The managed portfolio was as follows:

	As at 30 September 2016	**As at 31 December 2015**	**As at 30 September 2015**
Fixed maturity securities	82.4%	81.6%	83.8%
Cash and cash equivalents	9.1%	9.6%	7.7%
Hedge funds	6.8%	8.0%	7.8%
Equity securities	1.7%	0.8%	0.7%
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 30 September 2016	**As at 31 December 2015**	**As at 30 September 2015**
Duration	1.7 years	1.5 years	1.5 years
Credit quality	AA-	AA-	AA-
Book yield	1.7%	1.6%	1.6%
Market yield	1.5%	1.9%	1.6%

Lancashire Third Party Capital Management

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

	Q3		YTD	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Kinesis underwriting fees	2.2	2.6	3.3	4.1
Kinesis profit commission	–	1.9	3.2	7.2
Lloyd's managing agency fees & profit commission	0.8	0.6	3.7	3.6
Total other income	**3.0**	**5.1**	**10.2**	**14.9**
Share of profit of associate	2.7	2.7	4.4	4.3
Total third party capital managed income	**5.7**	**7.8**	**14.6**	**19.2**

The lower Kinesis profit commission during the third quarter and first nine months of 2016 compared to the same periods in 2015 is due to the timing of confirmation of loss quantum and the resulting retention of some collateral held. The share of profit of associate reflects Lancashire's 10% equity interest in the Kinesis vehicle.

Other operating expenses

Other operating expenses consist of the following items:

	Q3		YTD	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Employee remuneration costs	14.7	15.3	46.8	44.3
Other operating expenses	9.2	9.8	28.3	31.6
Total	**23.9**	**25.1**	**75.1**	**75.9**

Employee remuneration costs for the third quarter of 2016 were largely flat compared to the same period in the prior year. For the first nine months of 2016 employee remuneration costs increased by $2.5 million compared to the corresponding period of 2015, primarily due to a slight increase in headcount plus variability around incentive pay. As reported in the first quarter, costs were also incurred in relation to the departure of the previous Active Underwriter of Cathedral.

Other operating expenses were lower in the third quarter and first nine months of 2016 compared to the same periods in the prior year primarily due to lower consulting costs, lower IT project expenses and a benefit from the reduction in Sterling.

Equity based compensation

Equity based compensation was $1.7 million in the third quarter of 2016 compared to $7.4 million in the same period last year and $10.1 million for the first nine months of 2016 compared to $12.2 million in the same period last year. The decrease in the quarter compared to the prior year to date was primarily due to the lapsing of restricted share scheme awards of former employees of Cathedral on their departure from the Group. The charge for the third quarter 2015 was also higher than normal due to an increase in performance expectations during that quarter. Cathedral award lapses also impacted the decrease in the year to date compared to 2015, offset to a degree by increased performance assumptions.

Capital

At 30 September 2016, total capital available to Lancashire was $1.644 billion, comprising shareholders' equity of $1.321 billion and $323.4 million of long-term debt. Tangible capital was $1.490 billion. Leverage was 19.7% on total capital and 21.7% on total tangible capital. Total capital and total tangible capital at 30 September 2015 were $1.684 billion and $1.530 billion respectively.

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

Dividends

During the third quarter of 2016, the Lancashire Board of Directors declared an interim dividend in respect of 2016 of $0.05 (£0.03) per common share. The dividend payment, totalling $10.0 million, was paid on 31 August 2016 to shareholders of record on 5 August 2016.

Lancashire announces that its Board of Directors has declared a special dividend for 2016 of $0.75 per common share (approximately (£0.61) per common share at the current exchange rate), which will result in an aggregate payment of approximately $150.0 million. The dividend will be paid in Pounds Sterling on 14 December 2016 (the "Dividend Payment Date") to shareholders of record on 18 November 2016 (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 Registrars for more details at: http://www.capitaassetservices.com

Financial information

Further details of our 2016 third quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm GMT time / 9:00am EDT on Thursday 3rd November 2016. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44(0)20 3427 1909 (Local - London, UK) +0800 279 5004 (National free phone - UK) / +1 212 444 0896 (Local - New York, USA) +1 877 280 1254 (National free phone - USA) with the confirmation code 6993693. The call can also be accessed via webcast, please go to our website (http://www.lancashiregroup.com/en/investors.html) to 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:

Lancashire Holdings Limited
Christopher Head +44 20 7264 4145
chris.head@lancashiregroup.com

Jonny Creagh-Coen +44 20 7264 4066
jcc@lancashiregroup.com

Haggie Partners +44 20 7562 4444
David Haggie (David Haggie mobile +44 7768332486)

About Lancashire

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

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

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

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

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

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

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

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

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

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

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

This release contains information, which may be of a price sensitive nature, that Lancashire is making public in a manner consistent with the EU Market Abuse Regulation and other regulatory obligations. The information was submitted for publication, through the agency of the contact persons set out above, at 07.00 GMT on 3 November 2016.

NOTE REGARDING RPI METHODOLOGY

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP, THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP'S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING 'SOFT' AS WELL AS 'HARD' MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, 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 INCOME 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 WE OPERATE; 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 WE WRITE RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; ANYCHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF THE "BREXIT" VOTE AND FUTURE NEGOTIATIONS REGARDING THE U.K'S RELATIONSHIP WITH THE E.U. IN THE RECENT IN-OR-OUT REFERENDUM ON OUR 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 STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

Consolidated statement of comprehensive income
(Unaudited)

	Q3 2016 $m	Q3 2015 $m	YTD 2016 $m	YTD 2015 $m
Gross premiums written	108.2	120.4	538.8	544.0
Outwards reinsurance premiums	(16.2)	(10.3)	(168.2)	(149.6)
Net premiums written	**92.0**	**110.1**	**370.6**	**394.4**
Change in unearned premiums	48.9	58.7	(48.2)	7.6
Change in unearned premiums on premiums ceded	(31.6)	(30.1)	37.5	34.3
Net premiums earned	**109.3**	**138.7**	**359.9**	**436.3**
Net investment income	7.0	7.8	23.0	22.4
Net other investment income (losses)	4.0	(5.3)	3.5	(1.1)
Net realised gains (losses) and impairments	1.9	(2.4)	(5.5)	(2.0)
Share of profit of associate	2.7	2.7	4.4	4.3
Other income	3.0	5.1	10.2	14.9
Net foreign exchange gains (losses)	0.8	(2.0)	3.5	(5.0)
Total net revenue	**128.7**	**144.6**	**399.0**	**469.8**
Insurance losses and loss adjustment expenses	43.9	38.2	178.8	153.4
Insurance losses and loss adjustment expenses recoverable	(16.2)	(1.6)	(78.1)	(21.7)
Net insurance acquisition expenses	29.1	35.7	96.1	113.1
Equity based compensation	1.7	7.4	10.1	12.2
Other operating expenses	23.9	25.1	75.1	75.9
Total expenses	**82.4**	**104.8**	**282.0**	**332.9**
Results of operating activities	**46.3**	**39.8**	**117.0**	**136.9**
Financing costs	3.4	6.9	17.5	15.4
Profit before tax	**42.9**	**32.9**	**99.5**	**121.5**
Tax credit	0.1	1.4	3.4	5.7
Profit after tax	**43.0**	**34.3**	**102.9**	**127.2**
Non-controlling interests	(0.1)	(0.2)	(0.2)	(0.5)
Profit after tax attributable to Lancashire	**42.9**	**34.1**	**102.7**	**126.7**
Net change in unrealised gains/losses on investments	(1.3)	(3.7)	21.2	(1.9)
Tax provision on net change in unrealised gains/ losses on investments	–	(0.1)	(0.6)	–
Other comprehensive (loss) income	**(1.3)**	**(3.8)**	**20.6**	**(1.9)**
Total comprehensive income attributable to Lancashire	**41.6**	**30.3**	**123.3**	**124.8**
Net loss ratio	25.3%	26.4%	28.0%	30.2%
Net acquisition cost ratio	26.6%	25.7%	26.7%	25.9%
Administrative expense ratio	21.9%	18.1%	20.9%	17.4%
Combined ratio	73.8%	70.2%	75.6%	73.5%
Basic earnings per share	$ 0.22	$ 0.17	$ 0.52	$ 0.65
Diluted earnings per share	$ 0.21	$ 0.17	$ 0.51	$ 0.64
Change in fully converted book value per share	3.1%	2.6%	10.5%	9.3%

* Return on equity including warrant exercises was 2.6% for the third quarter of 2015 and 7.2% for the first nine months of 2015, all remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity.

Consolidated balance sheet
(Unaudited)

	As at 30 September 2016 $m	As at 30 September 2015 $m	As at 31 December 2015 $m
Assets			
Cash and cash equivalents	289.8	251.1	291.8
Accrued interest receivable	6.6	7.5	6.5
Investments	1,842.9	2,007.4	1,773.3
Inwards premiums receivable from insureds and cedants	315.0	307.6	253.7
Reinsurance assets			
- Unearned premiums on premiums ceded	67.7	59.0	30.2
- Reinsurance recoveries	149.9	87.9	83.9
- Other receivables	15.0	3.4	2.7
Other receivables	41.2	24.1	37.8
Investment in associate	26.5	28.2	47.5
Property, plant and equipment	5.8	7.6	7.2
Deferred acquisition costs	93.2	98.0	87.2
Intangible assets	153.8	153.8	153.8
Total assets	**3,007.4**	**3,035.6**	**2,775.6**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	708.7	697.8	671.0
- Unearned premiums	447.4	471.5	399.2
- Other payables	38.9	42.4	36.2
Amounts payable to reinsurers	64.2	39.0	26.6
Deferred acquisition costs ceded	0.7	0.7	0.3
Other payables	71.6	61.1	67.0
Corporation tax payable	3.2	5.0	1.8
Deferred tax liability	21.1	27.2	25.6
Interest rate swap	7.0	6.5	4.8
Long-term debt	323.4	323.4	322.3
Total liabilities	**1,686.2**	**1,674.6**	**1,554.8**
Shareholders' equity			
Share capital	100.7	100.2	100.7
Own shares	(24.8)	(24.9)	(30.4)
Other reserves	882.4	872.4	880.8
Accumulated other comprehensive income (loss)	10.1	(1.1)	(10.5)
Retained earnings	352.6	413.9	279.7
Total shareholders' equity attributable to equity shareholders of LHL	**1,321.0**	**1,360.5**	**1,220.3**
Non-controlling interest	0.2	0.5	0.5
Total shareholders' equity	**1,321.2**	**1,361.0**	**1,220.8**
Total liabilities and shareholders' equity	**3,007.4**	**3,035.6**	**2,775.6**
Basic book value per share	$6.64	$6.88	$6.16
Fully converted book value per share	$6.55	$6.78	$6.07

Consolidated statements of cash flows
(Unaudited)

	Nine months 2016 $m	Nine months 2015 $m	Twelve Months 2015 $m
Cash flows from operating activities			
Profit before tax	99.5	121.5	171.7
Tax (paid) refunded	(1.3)	4.4	4.4
Depreciation	1.7	1.5	1.9
Interest expense on long-term debt	12.2	11.2	15.1
Interest and dividend income	(29.1)	(31.0)	(40.9)
Net amortisation of fixed maturity securities	3.9	6.6	8.1
Equity based compensation	10.1	12.2	15.8
Foreign exchange (gains) losses	(1.4)	16.6	10.8
Share of profit of associate	(4.4)	(4.3)	(4.1)
Net other investment (income) losses	(3.5)	1.1	1.3
Net realised losses (gains) and impairments	5.5	2.0	2.8
Net unrealised losses (gains) on interest rate swaps	2.2	1.6	(0.1)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	(62.7)	(53.3)	(71.0)
- Other assets and liabilities	7.8	(10.4)	(17.7)
Net cash flows from operating activities	**40.5**	**79.7**	**98.1**
Cash flows from investing activities			
Interest and dividends received	29.0	31.2	42.1
Net purchase of property, plant and equipment	(0.3)	–	–
Investment in associate	25.4	28.8	9.3
Purchase of investments	(992.8)	(776.0)	(990.8)
Proceeds on sale of investments	940.1	737.1	1,173.5
Net cash flows from investing activities	**1.4**	**21.1**	**234.1**
Cash flows used in financing activities			
Interest paid	(13.5)	(13.1)	(15.2)
Dividends paid	(29.8)	(128.9)	(317.5)
Dividend paid to minority interest holders	(0.5)	(0.5)	(0.6)
Distributions by trust	(2.9)	(4.4)	(4.7)
Net cash flows used in financing activities	**(46.7)**	**(146.9)**	**(338.0)**
Net decrease in cash and cash equivalents	**(4.8)**	**(46.1)**	**(5.8)**
Cash and cash equivalents at the beginning of year	291.8	303.5	303.5
Effect of exchange rate fluctuations on cash and cash equivalents	2.8	(6.3)	(5.9)
Cash and cash equivalents at end of year	**289.8**	**251.1**	**291.8**