Maintained performance despite sizeable risk losses

Elaine Whelan
Group Chief Financial Officer

"Given the nature of our book and the loss events, we have performed as we would expect and have once again benefited from the additional reinsurance we have been buying. There is, however, a significant impact on our profitability for the year from these events."

What are your thoughts on the Company's performance in 2018?

2018 potentially had in excess of $80 billion of estimated global insured losses. While that's less than the $140 billion+ estimated last year, it's still significantly higher than average. It was again a year of accumulation, with no one, individually significant event driving the magnitude of the total insured loss. There were also a few sizeable risk losses in 2018 which contributed to the aggregate losses picked up by the industry. The types of losses that occurred are exactly the types of risks that Lancashire underwrites. We have therefore picked up losses across these events, recording a total net loss after reinsurance recoveries and reinstatement premiums of $119.3 million, with our equity pick up from our investment in Kinesis included in that number. Given the nature of our book and the loss events, we have performed as we would expect and have once again benefited from the additional reinsurance we have been buying. There is, however, a significant impact on our profitability for the year from these events. We have produced an RoE of 2.4 per cent – we are back in the black after 2017 and our RoE has improved by 8.3 per cent, however, pricing is still not where it needs to be to sustain the level of loss activity the industry is experiencing. We remain hopeful that the market reacts appropriately after two years of heavy losses.

Have you been affected by 'loss creep' on the 2017 catastrophe events?

Reserving for the 2017 loss events was complicated. With such frequency of events there are amplifying effects that you don't see in an individual event – there can be more impacts from demand surge and the limited pool of resources available to adjust the losses, for example. We were aware of those potential effects while we were assessing our initial reserves, but I think it would be fair to say there was a bigger impact than perhaps we have seen historically. Assessing reinsurance recoveries is also more complicated with numerous events as compared to one event. However, we are generally fairly

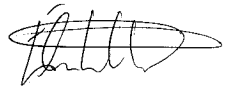
thorough and prudent in our initial reserving approach when there is a lack of cedant information. Our net loss after reinsurance recoveries and reinstatement premium, and including our equity pick up from our investment in Kinesis in relation to hurricanes Harvey, Irma, Maria, the two Mexican earthquakes plus the California wildfires, was $176.1 million at 31 December 2018, versus the initial $189.2 million at 31 December 2017. While there's still some way to go before the losses are fully settled, we're comfortable with the level of reserves which we are carrying across those events.

Did you make any changes in your reserving process for the 2018 catastrophe events?

Not really. While there are always lessons to be learned following loss events, our experience with the 2017 catastrophes proved our approach to be robust. There is a rigorous internal review process where we go through individual accounts to assess the potential loss and derive preliminary expectations from that. We would also have a view of the overall industry loss that would inform that expectation. Then the individual subsidiaries all have their own Reserve Committees who challenge the underlying estimates.

After two years of well above average loss levels, what does that mean for Lancashire's capital position?

We're very comfortable with the level of capital we are carrying. We always work out the business we want to write and then calculate the capital that would be needed to support that. We then add a buffer on top of that to ensure we have flexibility. We have carried excess buffers in recent years given the market conditions and that has served us well. We've also been buying more reinsurance in recent years and that helped us to better manage volatility, as well as our expected capital requirement. That means we have enough capital to underwrite the book that we want but also have some capital available to take advantage of any opportunities that may materialise.



Elaine Whelan
Group Chief Financial Officer

Financial highlights

	2018 $m	2017 $m	2016 $m	2015 $m	2014 $m
Gross premiums written	**638.5**	591.6	633.9	641.1	907.6
Net premiums written	**417.7**	398.0	458.7	481.7	742.8
Net premiums earned	**413.5**	427.9	488.1	567.1	715.6
Net insurance losses	**165.4**	335.4	142.5	155.7	226.5
Net underwriting profit (loss)	**121.7**	(23.1)	213.5	265.2	335.7
Net investment income	**34.7**	30.5	29.8	29.8	28.6
Net realised (losses) gains and impairments	**(5.1)**	9.1	(2.4)	(2.8)	(5.9)
Profit (loss) after tax[1]	**37.5**	(71.1)	153.8	181.1	229.3
Net change in unrealised gains/losses on investments	**(12.8)**	4.9	4.1	(11.3)	(2.1)
Comprehensive income (loss)[1]	**24.7**	(66.2)	157.9	169.8	227.2
Dividends[2]	**70.2**	29.9	178.9	317.5	321.0
Diluted earnings (loss) per share	**$0.19**	($0.36)	$0.76	$0.91	$1.16
Fully converted book value per share	**$5.26**	$5.48	$5.98	$6.07	$6.96
Return on equity	**2.4%**	(5.9%)	13.5%	10.9%	13.9%
Return on equity excluding warrant adjustments	**2.4%**	(5.9%)	13.5%	13.5%	14.7%
Net loss ratio	**40.0%**	78.4%	29.2%	27.5%	31.7%
Net acquisition cost ratio	**30.6%**	27.0%	27.1%	25.8%	21.4%
Expense ratio	**21.6%**	19.5%	20.2%	18.8%	15.6%
Combined ratio	**92.2%**	124.9%	76.5%	72.1%	68.7%
Accident year loss ratio	**70.0%**	94.2%	46.2%	46.0%	35.9%
Net total return on investments[3]	**0.8%**	2.5%	2.1%	0.7%	1.0%

1. Amounts are attributable to Lancashire and exclude non-controlling interest.
2. Dividends are included in the financial statement year in which they were recorded.
3. Net return on investments includes internal foreign exchange hedging.