1 Our opinion is unmodified

We have audited the consolidated financial statements of Lancashire Holdings Limited ("the Group") for the year ended 31 December 2017 which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statements of comprehensive (loss) income, changes in shareholders' equity and cash flows for the year then ended, and the related notes, including the accounting policies.

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses ($933.5m gross, $649.4m net; 2016: $679.8m gross, $543.1m net)

Refer to page 51 (Audit Committee report), page 97 (accounting policy) and pages 140 to 142 (financial disclosures)

Risk	Response
The Group maintains reserves to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Group. **Subjective valuation** The valuation of loss reserves is a complex process which requires the exercise of significant judgement. Key judgements relate to the assumptions applied in setting the estimates of both the gross and net liabilities that have been incurred but not reported, and assessing the evidence for the release or strengthening of provisions for claims. We also consider there to be greater judgement associated with reserves held for classes of business where losses tend to relate to low frequency high severity events, which limits the availability of historical loss data for use in calculating expected ultimate losses. For these classes in particular, there is a greater level of required judgement in estimating the initial expected loss ratios in the most recent underwriting years.	We have used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: • **Methodology choice** Assessing and challenging the reserving methodology (on a gross basis and net of outwards reinsurance) based on our knowledge and understanding of the reserving policy within the Group. This has also involved comparing the Group's reserving methodology with industry practice and understanding the rationale for key differences. • **Historical experience** Challenging the quality of the Group's historical reserving estimates by monitoring the development of losses against initial estimates. • **Independent re-performance** Applying our own assumptions, across all classes of business, to perform re-projections on the insurance contract liabilities for loss and loss adjustment expenses on both a gross and net basis and comparing these to the Group's projected results. Where there were significant variances in the results, we have challenged the Group's assumptions. Our independent re-projections focussed on classes of business where losses tend to relate to low frequency high severity events. • **Benchmarking assumptions** Assessing and challenging the reserving assumptions by comparing the Group's loss experience to peers in the market, on a gross and net basis, including on a contract by contract basis for large loss and catastrophe events.

Premiums which are estimated or earned based on non-standard profiles, included in gross premiums written (2017: $591.6m, 2016: $633.9m)

Refer to page 51 (Audit Committee report), page 96 (accounting policy) and pages 102 to 106 (financial disclosures)

Risk	Response
Subjective estimate Pricing for certain contracts is based on a best estimate of ultimate premiums as a result of premiums being based upon future events which are unknown at the balance sheet date. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised. There is also judgement required in determining the appropriate earnings profile to be applied to each contract, particularly where standard (straight line over the contract period) earning profiles are not applied.	Our procedures included: • **Control operation** Testing the design, implementation and operating effectiveness of key controls over the periodic review of premium estimates booked. • **Historical comparisons** Performing procedures to understand the development of estimated premium income by comparing the Group's estimated premium income to actual premium income once received and verifying actual premium income back to source documentation for a sample of policies. • **Assessing application** Assessing the appropriateness of non-standard earnings profiles applied in the context of the type of contracts being written and practice across the market.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the consolidated financial statements as a whole was set at $7.0 million, determined with reference to a benchmark of normalised profit before tax of $139.2 million, of which it represents 5.0 per cent. This was computed by averaging the last five years of profit before tax to allow for fluctuations in the business cycle.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.3 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected 8 of the 9 components, including the parent company, UK insurance company, Bermuda insurance company and Lloyd's operations to full scope audits for group reporting purposes. Including the audit of the consolidation adjustments our scope covered 100 per cent of gross premiums written, loss before tax and total assets.

The work on 7 of the 8 components was performed by component auditors and the other one, which was the parent company, was performed by the Group audit team. The Group audit team instructed the component auditors, based in the UK and Bermuda, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from $9,500 to $3.8 million having regard to the size and risk profile of the various components across the Group. The Group audit team visited all component locations in Bermuda and the UK. Video and telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditors.

4 We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement on page 83 of the Annual Report and Accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in this respect.

5 We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts. Our opinion on the consolidated financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' Remuneration Report

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our consolidated financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the going concern and viability statement on page 83 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risk Disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the going concern and viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our consolidated financial statements audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report and Accounts describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 84, the Directors are responsible for: the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; such internal control as they determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditors' report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Rees Aronson
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London, E14 5GL

14 February 2018

Consolidated statement of comprehensive (loss) income

For the year ended 31 December 2017

	Notes	2017 $m	2016 $m
Gross premiums written	2	**591.6**	633.9
Outwards reinsurance premiums	2	**(193.6)**	(175.2)
Net premiums written		**398.0**	458.7
Change in unearned premiums	2	**22.6**	25.7
Change in unearned premiums on premiums ceded	2	**7.3**	3.7
Net premiums earned		**427.9**	488.1
Net investment income	3	**30.5**	29.8
Net other investment income	3	**1.2**	6.9
Net realised gains (losses) and impairments	3	**9.1**	(2.4)
Share of (loss) profit of associate	15	**(9.4)**	5.1
Other income	22	**17.2**	20.5
Net foreign exchange gains		**2.3**	4.4
Total net revenue		**478.8**	552.4
Insurance losses and loss adjustment expenses	2, 12	**538.0**	212.2
Insurance losses and loss adjustment expenses recoverable	2, 12	**(202.6)**	(69.7)
Net insurance losses		**335.4**	142.5
Insurance acquisition expenses	2, 4	**120.7**	135.1
Insurance acquisition expenses ceded	2, 4	**(5.1)**	(3.0)
Other operating expenses	5, 6, 20	**83.6**	98.5
Equity based compensation	6	**(0.4)**	10.7
Total expenses		**534.2**	383.8
Results of operating activities		**(55.4)**	168.6
Financing costs	7	**17.5**	18.2
(Loss) profit before tax		**(72.9)**	150.4
Tax credit	8	**2.3**	3.9
(Loss) profit for the year		**(70.6)**	154.3
(Loss) profit for the year attributable to:			
Equity shareholders of LHL		**(71.1)**	153.8
Non-controlling interests		**0.5**	0.5
(Loss) profit for the year		**(70.6)**	154.3
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 10	**4.9**	4.1
Other comprehensive income		**4.9**	4.1
Total comprehensive (loss) income for the year		**(65.7)**	158.4
Total comprehensive (loss) income attributable to:			
Equity shareholders of LHL		**(66.2)**	157.9
Non-controlling interests		**0.5**	0.5
Total comprehensive (loss) income for the year		**(65.7)**	158.4
(Loss) earnings per share			
Basic	21	**($0.36)**	$0.77
Diluted	21	**($0.36)**	$0.76

Consolidated balance sheet

As at 31 December 2017

	Notes	2017 $m	2016 $m
Assets			
Cash and cash equivalents	9, 17	**256.5**	308.8
Accrued interest receivable		**6.1**	6.6
Investments	10, 11, 17	**1,654.6**	1,648.4
Inwards premiums receivable from insureds and cedants	13	**297.9**	270.0
Reinsurance assets			
– Unearned premiums on premiums ceded		**41.2**	33.9
– Reinsurance recoveries	12	**284.1**	136.7
– Other receivables	13	**20.7**	16.5
Other receivables	13	**42.4**	43.6
Corporation tax receivable		**–**	1.1
Investment in associate	11, 15	**59.4**	49.7
Property, plant and equipment		**2.6**	5.3
Deferred acquisition costs		**76.7**	81.5
Intangible assets	16	**153.8**	153.8
Total assets		**2,896.0**	2,755.9
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	12	**933.5**	679.8
– Unearned premiums		**350.9**	373.5
– Other payables		**40.7**	37.4
Amounts payable to reinsurers		**65.5**	52.7
Deferred acquisition costs ceded		**2.5**	0.4
Other payables		**48.0**	61.0
Corporation tax payable		**2.8**	–
Deferred tax liability	14	**16.5**	18.7
Interest rate swap	17	**2.0**	3.7
Long-term debt	17	**326.3**	320.9
Total liabilities		**1,788.7**	1,548.1
Shareholders' equity			
Share capital	18	**100.7**	100.7
Own shares	18	**(12.1)**	(23.2)
Other reserves	19	**866.2**	881.6
Accumulated other comprehensive loss	10	**(1.5)**	(6.4)
Retained earnings		**153.6**	254.6
Total shareholders' equity attributable to equity shareholders of LHL		**1,106.9**	1,207.3
Non-controlling interests	22	**0.4**	0.5
Total shareholders' equity		**1,107.3**	1,207.8
Total liabilities and shareholders' equity		**2,896.0**	2,755.9

The consolidated financial statements were approved by the Board of Directors on 14 February 2018 and signed on its behalf by:

Peter Clarke
Director/Chairman

Elaine Whelan
Director/CFO

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2017

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other comprehensive loss $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2015		100.7	(30.4)	880.8	(10.5)	279.7	1,220.3	0.5	1,220.8
Total comprehensive income for the year		–	–	–	4.1	153.8	157.9	0.5	158.4
Shares donated to trust	18, 19, 22	–	0.6	(0.6)	–	–	–	–	–
Distributed by trust	18, 19	–	6.6	(9.5)	–	–	(2.9)	–	(2.9)
Dividends on common shares	18	–	–	–	–	(178.9)	(178.9)	–	(178.9)
Dividends paid to minority interest holders	22	–	–	–	–	–	–	(0.5)	(0.5)
Equity based compensation – expense	19	–	–	10.9	–	–	10.9	–	10.9
Balance as at 31 December 2016		100.7	(23.2)	881.6	(6.4)	254.6	1,207.3	0.5	1,207.8
Total comprehensive (loss) for the year		**–**	**–**	**–**	**4.9**	**(71.1)**	**(66.2)**	**0.5**	**(65.7)**
Shares donated to trust	18, 19, 22	**–**	**1.2**	**(1.2)**	**–**	**–**	**–**	**–**	**–**
Distributed by trust	18, 19	**–**	**9.9**	**(13.8)**	**–**	**–**	**(3.9)**	**–**	**(3.9)**
Dividends on common shares	18	**–**	**–**	**–**	**–**	**(29.9)**	**(29.9)**	**–**	**(29.9)**
Dividends paid to minority interest holders	22	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Equity based compensation – credit	19	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Balance as at 31 December 2017		**100.7**	**(12.1)**	**866.2**	**(1.5)**	**153.6**	**1,106.9**	**0.4**	**1,107.3**

Statement of consolidated cash flows

For the year ended 31 December 2017

	Notes	2017 $m	2016 $m
Cash flows (used in) from operating activities			
(Loss) profit before tax		**(72.9)**	150.4
Tax refunded (paid)		**1.3**	(1.3)
Depreciation	5	**1.8**	2.3
Interest expense on long-term debt	7	**16.4**	15.6
Interest and dividend income		**(37.1)**	(38.5)
Net amortisation of fixed maturity securities		**2.8**	5.0
Equity based compensation	6	**(0.4)**	10.7
Foreign exchange losses (gains)		**9.4**	(2.3)
Share of loss (profit) of associate	15	**9.4**	(5.1)
Net other investment income	3	**(1.2)**	(6.9)
Net realised (gains) losses and impairments	3	**(9.1)**	2.4
Net unrealised gains on interest rate swaps		**(1.7)**	(1.1)
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**52.0**	(71.7)
– Other assets and liabilities		**(9.4)**	(10.6)
Net cash flows (used in) from operating activities		**(38.7)**	48.9
Cash flows from investing activities			
Interest and dividends received		**37.6**	38.4
Purchase of property, plant and equipment		**(0.6)**	(0.4)
Investment in associate	22	**(19.1)**	2.9
Purchase of investments		**(1,196.1)**	(1,214.0)
Proceeds on sale of investments		**1,209.5**	1,341.8
Net cash flows from investing activities		**31.3**	168.7
Cash flows used in financing activities			
Interest paid		**(16.3)**	(15.4)
Dividends paid	18	**(29.9)**	(178.9)
Dividends paid to minority interest holders		**(0.6)**	(0.5)
Distributions by trust		**(3.9)**	(2.9)
Net cash flows used in financing activities		**(50.7)**	(197.7)
Net (decrease) increase in cash and cash equivalents		**(58.1)**	19.9
Cash and cash equivalents at beginning of year		**308.8**	291.8
Effect of exchange rate fluctuations on cash and cash equivalents		**5.8**	(2.9)
Cash and cash equivalents at end of year	9	**256.5**	308.8

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP. In the course of preparing the consolidated financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations as noted in the 'Use of Estimates' section below, that have had a significant effect on amounts recognised in the consolidated financial statements.

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

While a number of new or amended IFRS and IFRIC standards have recently been issued, there are no standards issued that have had a material impact on the Group.

IFRS 15, Revenue from Contracts with Customers, is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will not have a material impact on the results and disclosures reported in the consolidated financial statements.

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts by an insurer. The new standard is effective for annual periods beginning on or after 1 January 2021 and will include a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Group will continue to assess the impact the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed maturity securities, equity securities and hedge funds as AFS or FVTPL. The new standard is effective for annual periods beginning on or after 1 January 2018, although it has been deferred for insurers until 1 January 2021 to align with the implementation date of IFRS 17. IFRS 9 is not expected to have a material impact on the results and disclosures reported in the consolidated financial statements.

The consolidated balance sheet of the Group is presented in order of decreasing liquidity.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to losses and loss adjustment expenses. This is discussed on page 96 and 97 and also in the risk disclosures section from page 108. Estimates in relation to losses and loss adjustment expenses recoverable are discussed on page 96.

Estimates are also made in determining the estimated fair value of certain financial instruments and equity compensation plans. The estimation of the fair value of financial instruments is discussed on pages 97 and 98 and in note 10. Management judgement is applied in determining impairment charges. The estimation of the fair value of equity based compensation awards granted is discussed in note 6.

Intangible assets are recognised on the acquisition of a subsidiary. The fair value of intangible assets arising from the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU to which the intangible assets are allocated. The assumptions made by management in performing impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are contained in note 16.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2017. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group participates on two Syndicates at Lloyd's, which are managed by the Group's managing agent subsidiary. In view of the several liability of underwriting members at Lloyd's, the Group recognises its proportion of all the transactions undertaken by the Syndicates in which it participates within its consolidated statement of comprehensive (loss) income. Similarly, the Group's proportion of the Syndicates' assets and liabilities has been reflected in its consolidated balance sheet. This proportion is calculated by reference to the Group's participation as a percentage of each Syndicate's total capacity for each year of account.

Subsidiaries' accounting policies are generally consistent with the Group's accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

Associate

Investments, in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income and loss from such investments in its consolidated statement of comprehensive (loss) income for the period. Adjustments are made to investment in associate accounting policies, where necessary, in order to be consistent with the Group's accounting policies.

Foreign currency translation

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the consolidated statement of comprehensive (loss) income in profit or loss. Non-monetary assets and liabilities carried at historical cost and denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in the consolidated statement of comprehensive (loss) income in profit or loss.

Intangible assets

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the intangible asset. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Goodwill

Goodwill is deemed to have an indefinite life and, after initial recognition, is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or when events or changes in circumstances indicate that it might be impaired.

Syndicate participation rights

Syndicate participation rights purchased in a business combination are initially measured at fair value and are subsequently measured at cost less any accumulated impairment losses. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually, or when events or changes in circumstances indicate that it might be impaired.

Insurance contracts

Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

Premiums and acquisition costs

Premiums are first recognised as written at the later of a contract's binding or inception date. The group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned rateably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

Outwards reinsurance

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for the reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Losses

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses and ACR, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to income as they are incurred.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reports of losses received from third parties. ACRs are determined where the Group's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are set on a best estimate basis and are estimated by management using various actuarial methods as well as a combination of the Group's own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

The estimation of the ultimate liability arising is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in losses and loss adjustment expenses.

Liability adequacy tests

At each balance sheet date, the Group performs a liability adequacy test using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

Investments

The Group's fixed maturity and equity securities are quoted or unquoted investments that are classified as AFS or at FVTPL and are carried at estimated fair value. The classification of the Group's financial assets is determined at the time of initial purchase and depends on the nature of the investment. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis and if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Equity securities classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. Fixed maturity securities classified as AFS are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at estimated fair value. Estimated fair values 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.

Regular way purchases and sales of investments are recognised at estimated fair value including, in the case of investments not carried at FVTPL, transaction costs attributable to the acquisition of that investment on the trade date and are subsequently carried at estimated fair value. The estimated fair values of quoted and unquoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains and losses from changes in the estimated fair value of AFS investments are included in accumulated other comprehensive loss in shareholders' equity. Changes in estimated fair value of investments classified at FVTPL are recognised in current period net other investment income.

Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. On derecognition of an AFS investment, previously recorded unrealised gains and losses are removed from accumulated other comprehensive loss in shareholders' equity and included in current period profit or loss. Realised gains and losses are included in net investment income in the period in which they arise.

Amortisation and accretion of premiums and discounts on AFS fixed maturity securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity. Dividends on equity securities are recorded as income on the date the dividends become payable to the holders of record.

The Group regularly reviews the carrying value of its AFS investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive loss in shareholders' equity and charged to current period profit or loss. Impairment losses on fixed maturity securities may be subsequently reversed through profit or loss while impairment losses on equity securities are not subsequently reversed through profit or loss.

Derivative financial instruments

Derivatives are classified as financial assets or liabilities at FVTPL and are recognised at estimated fair value on the date a contract is entered into, the trade date, and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative estimated fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of instruments are recognised in profit or loss. The Group does not currently hold any derivatives classified as hedging instruments. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled or expired.

Other income

Fees are recognised in line with services provided. Profit commissions are recognised in line with the underlying performance. Contingent profit commissions due on open years of account are recognised when it is virtually certain that they will be realised.

Long-term debt

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

Property, plant and equipment

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive (loss) income. Costs for repairs and maintenance are charged to profit or loss as incurred.

Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Employee benefits

Equity compensation plans

The Group currently operates an RSS under which nil-cost options have been granted. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive (loss) income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive (loss) income and the actual cost to the Group, if any, is transferred to other reserves.

Pensions

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive (loss) income in the period when the services are rendered.

Tax

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the consolidated statement of comprehensive (loss) income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the consolidated balance sheet and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Where the current estimated fair value of equity based compensation awards differs from the estimated fair value at the time of grant, adjusted where applicable for dividends, the related corporation tax and deferred tax charge or credit is recognised directly in other reserves.

Own shares

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

Risk disclosures: Introduction

The Group is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM framework is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and return is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and providing investors with a superior risk-adjusted return over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modeled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on at least a monthly basis, management reviews the output from SHARP in order to assess modeled potential losses against risk tolerances and ensure that risk levels are managed in accordance with them.

Economic capital model

The foundation of the Lancashire Companies' risk-based capital approach to decision making is their economic capital model, BLAST, which is based on the widely accepted economic capital modeling tool, ReMetrica. Management uses BLAST primarily for monitoring its insurance risks. However, BLAST is also used to monitor other risks including market, credit and operational risks.

BLAST covers the risks for LICL, LUK and Kinesis but does not cover Cathedral's risks. Due to the particular requirements of Lloyd's regulations, Cathedral has its own internal model which is vetted by Lloyd's as part of its own capital and solvency regulations. To formulate an overall Group view of risk, exposures from Cathedral are combined with LICL, LUK and Kinesis.

BLAST produces data in the form of a stochastic distribution for all classes, including non-elemental classes. The distribution includes the mean outcome and the result at various return periods, including very remote events. BLAST calculates projected financial outcomes for each insurance class, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time. BLAST also measures the Group's aggregate insurance exposures. It therefore helps senior management and the Board of Directors to determine the level of capital required to meet the combined risk from a wide range of categories. Assisted by BLAST, the Group seeks to achieve an improved risk-adjusted return over time.

BLAST is used in strategic underwriting decisions, as part of the Group's annual business planning process, reforecasting and to assist in portfolio optimisation, taking account of inwards business and all major reinsurance purchases. Management also utilises BLAST in assessing the impact of strategic decisions on individual classes of business that the Group writes, or is considering writing, as well as the overall resulting financial impact to the Group. BLAST output, covering all of the risk groups to which the Group is exposed, is reviewed, including the anticipated loss curves, combined ratios and risk-adjusted profitability, to determine profitability and risk tolerance headroom by class.

The six primary risk categories, insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, are discussed in detail on page 101 to 125.

A. Insurance risk

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability consistent with the Group's risk-adjusted RoE targets.

The Group considers insurance risk at an individual contract level, at a segment level, a geographic level and at an aggregate portfolio level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The four principal classes of business for the Group, excluding the Lloyd's segment, are Property, Energy, Marine and Aviation. These classes, plus the Group's Lloyd's segment, are deemed to be the Group's five operating segments. The level of insurance risk tolerance per peril is set by the respective boards of directors at both the LHL and individual entity level.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Group has a rolling three-year strategic plan that helps establish the over-riding business goals that the Board of Directors aims to achieve;
- a detailed business plan is produced annually, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for Cathedral, the Syndicate business forecast and business plan are subject to review and approval by Lloyd's;
- BLAST, SHARP and Cathedral's internal models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks, and the outputs and assumptions from BLAST and SHARP are reviewed periodically by the RRC;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are monitored on a regular basis;
- a daily underwriting call is held for LICL and LUK to peer review insurance proposals, opportunities and emerging risks;
- a daily post-binding review process with exception reporting to management based on underwriting authority operates at Cathedral;
- sophisticated pricing and aggregation models are utilised in certain areas of the underwriting process, and are updated frequently;
- BLAST and other modeling tools are deployed to model catastrophes and resultant losses to the portfolio and the Group; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a treaty or facultative basis and to improve risk-adjusted RoE as modeled in BLAST.

Some of the Group's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes, wildfires and floods) and is subject to potential seasonal variation. A proportion of the Group's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events. The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associate.

The Group's exposures to certain peak zone elemental losses, 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 to the investment in associate is included in the figures below.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2017		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**173.8**	**13.6**	**253.6**	**19.8**
Non-Gulf of Mexico – U.S.	Hurricane	**140.9**	**11.0**	**306.5**	**24.0**
California	Earthquake	**96.1**	**7.5**	**181.1**	**14.2**
Pan-European	Windstorm	**77.2**	**6.0**	**125.1**	**9.8**
Japan	Typhoon	**51.6**	**4.0**	**68.1**	**5.3**
Japan	Earthquake	**46.6**	**3.6**	**85.6**	**6.7**
Pacific North West	Earthquake	**33.1**	**2.6**	**79.6**	**6.2**

(1) Landing hurricane from Florida to Texas.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2016		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	176.7	12.9	259.0	18.8
Non-Gulf of Mexico – U.S.	Hurricane	156.1	11.4	326.1	23.7
California	Earthquake	87.0	6.3	145.8	10.6
Pan-European	Windstorm	69.0	5.0	115.7	8.4
Japan	Typhoon	48.7	3.5	67.3	4.9
Japan	Earthquake	48.6	3.5	114.3	8.3
Pacific North West	Earthquake	27.6	2.0	65.7	4.8

(1) 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.

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2017		2016	
	$m	%	$m	%
U.S. and Canada	**177.6**	**30.0**	179.7	28.4
Worldwide offshore	**162.5**	**27.5**	161.1	25.5
Worldwide, including the U.S. and Canada[1]	**98.6**	**16.7**	115.6	18.2
Europe	**38.9**	**6.6**	46.9	7.4
Far East	**27.9**	**4.7**	29.2	4.6
Worldwide, excluding the U.S. and Canada[2]	**11.5**	**1.9**	15.4	2.4
Middle East	**6.9**	**1.2**	13.5	2.1
Rest of world	**67.7**	**11.4**	72.5	11.4
Total	**591.6**	**100.0**	633.9	100.0

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) 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.

Details of annual gross premiums written by business segment are provided below:

	2017		2016	
	$m	%	$m	%
Lloyd's	**207.3**	**35.0**	215.0	33.9
Property	**198.0**	**33.5**	219.5	34.6
Energy	**101.8**	**17.2**	126.0	19.9
Marine	**67.6**	**11.4**	37.2	5.9
Aviation	**16.9**	**2.9**	36.2	5.7
Total	**591.6**	**100.0**	633.9	100.0

Further details of the gross premiums written and the risks associated with each of these five principal business segments are described on the following pages.

I. Lloyd's

Gross premiums written, for the year:

	2017 $m	2016 $m
Property reinsurance	**88.5**	88.6
Property direct and facultative	**56.1**	56.1
Aviation and satellite	**25.0**	24.3
Marine cargo	**22.5**	21.2
Energy	**10.8**	14.9
Terrorism	**4.4**	6.3
Other	**–**	3.6
Total	**207.3**	215.0

Property reinsurance predominantly includes property catastrophe excess of loss, property per risk excess of loss and property retrocession lines of business. Property catastrophe excess of loss and property per risk excess of loss provide protection for elemental and non-elemental risks and are written on an excess of loss treaty basis within the U.S. and internationally. The U.S. property catastrophe excess of loss book is particularly focused on regional clients. Property retrocession is written on an excess of loss basis through treaty arrangements. It provides coverage for elemental risks when sold on a catastrophe basis and both elemental and non-elemental risks when sold on a per risk retrocession basis. Protection is generally given on a regional basis and may cover specific property risks or all catastrophe perils. It is also generally written on an UNL basis, meaning loss payments are linked to the ceding company's own loss.

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Aviation and satellite includes aviation reinsurance, aviation war, general aviation and aviation satellite lines of business. Aviation reinsurance provides excess of loss catastrophe cover to the insurers of the world's major airlines and aircraft and aircraft manufacturers. This includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers. Aviation war covers loss or damage to aviation assets from war, terrorism and similar causes. General aviation covers fixed wing and rotor wing aircraft, typically with 50 passenger seats or less, and covers both commercial and private clients. A significant part of the aviation satellite account is written through SATEC, a specialist underwriting agency, to which underwriting authority is delegated. Satellite insurance is purchased by launch operators, satellite manufacturers and satellite operators to protect against launch or deployment failure or subsequent failure in orbit. Policies are typically written for launch plus one year in orbit. Thereafter, orbit cover is normally provided on an annual basis.

Marine cargo is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, well control, business interruption and third party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple risk carriers. Construction energy contracts generally cover all risks of platforms, FPSO and drilling units under construction at yard and offshore, during towing and installation. Onshore construction contracts are generally not written.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts may be multi-year, reflecting the term of the underlying exposures. Reinsurance may be purchased on a facultative or treaty basis.

Reinsurance may be purchased to reduce the exposure to large risk losses and large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to mitigate an accumulation of smaller, attritional losses. Reinsurance may be purchased on a facultative, excess of loss treaty or proportional treaty basis.

II. Property

Gross premiums written, for the year:

	2017 $m	2016 $m
Property catastrophe excess of loss	**101.9**	99.8
Terrorism	**34.9**	41.1
Property political risk	**31.1**	44.1
Property risk excess of loss	**12.9**	11.3
Property retrocession	**10.0**	12.8
Other property	**7.2**	10.4
Total	**198.0**	219.5

Property catastrophe excess of loss covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts is often multi-year reflecting the term of the underlying exposures. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground-up or on an excess of loss basis. Coverage that the Group provides in the political risk book is split between confiscation perils coverage and sovereign/quasi-sovereign obligor coverage. Confiscation perils coverage protects against CEND and may be extended to include other perils. Sovereign/quasi-sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a sovereign or quasi-sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The term of these contracts is often multi-year reflecting the term of the underlying exposures. The Group does not provide cover against purely private obligor credit risk.

Property risk excess of loss is written on an excess of loss basis through UNL treaty arrangements, predominantly covering fire and allied perils in addition to natural catastrophe exposure. The portfolio is written on a worldwide basis, with particular focus on the U.S. market.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on an ILW basis, meaning that loss payments are linked to the overall industry insured loss as measured by independent third-party loss index providers.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming property catastrophe excess of loss and property retrocession portfolio risks. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modeling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines for large losses are set out on pages 101 and 102.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or quota share arrangements may be entered into.

III. Energy

Gross premiums written, for the year:

	2017 $m	2016 $m
Worldwide offshore energy	**66.6**	88.7
Gulf of Mexico offshore energy	**24.4**	20.1
Onshore energy	**3.5**	4.9
Energy liabilities	**3.0**	3.5
Construction energy	**(1.1)**	4.8
Other energy	**5.4**	4.0
Total	**101.8**	126.0

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple risk carriers.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modeling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines to large losses are set out on pages 101 and 102.

Onshore energy risks can include onshore Gulf of Mexico and worldwide energy installations and are largely subject to the same loss events as described above.

The Group writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that Lancashire writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

IV. Marine

Gross premiums written, for the year:

	2017 $m	2016 $m
Marine hull and total loss	**20.0**	13.1
Marine builders' risk	**13.9**	8.7
Marine excess of loss	**13.4**	–
Marine P&I clubs	**10.1**	8.4
Marine hull war	**7.1**	4.1
Other marine	**3.1**	2.9
Total	**67.6**	37.2

With the exception of the marine P&I clubs, where excess layers are written, most policies are written on a ground-up basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine builders' risk covers the building of ocean-going vessels in specialised yards worldwide and their testing and commissioning. Marine excess of loss is written on a treaty basis and covers ocean and inland marine risks. Marine P&I clubs is mostly the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs for removal of wreck.

Reinsurance may be purchased to reduce the Group's exposure to both large risk losses and an accumulation of smaller, attritional losses. Reinsurance is typically purchased on a treaty excess of loss basis.

V. Aviation

Gross premiums written, for the year:

	2017 $m	2016 $m
AV52	**16.8**	24.0
Aviation satellite	**(0.2)**	9.8
Other aviation	**0.3**	2.4
Total	**16.9**	36.2

AV52 is written on a risk attaching excess of loss basis and provides coverage for third-party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does, since 2014, include some U.S. commercial airlines.

Aviation satellite cover is written on a full value, primary or excess of loss basis and can provide cover for satellite launch, satellite in-orbit or both satellite launch and in-orbit. The Lancashire companies stopped writing new satellite business in 2016.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

Reinsurance

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results, and to improve the modeled risk-adjusted RoE by entering into reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The RSC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case-by-case basis, and would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. The RSC monitors its reinsurers on an ongoing basis and formally reviews the Group's reinsurance arrangements at least quarterly.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include ILW covers or quota share arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and sub-class. The Group regularly reviews its catastrophe and other exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group can purchase both facultative and treaty reinsurance with varying cover and attachment points. The reinsurance coverage is not intended to be available to meet all potential loss circumstances. The Group will retain some losses, as the cover purchased is unlikely to transfer the totality of the Group's exposure. Any loss amount which exceeds the programme would be retained by the Group. Some parts of the reinsurance programme have limited reinstatements, therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

Insurance liabilities

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group, particularly given the nature of the business written.

Under GAAP, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All reserves are reported on an undiscounted basis.

Losses and loss adjustment expenses are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilised, and then a range is developed around these point estimates. The point estimate represents management's best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual independent review by external actuaries. The results of the independent review is presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent of reliance on management's judgement in the reserving process differs as to whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or on a pro-rata basis. Over a typical annual period, the Group expects to write the large majority of programmes on a direct excess of loss basis. The Group does not currently write a significant amount of long-tail business.

Insurance versus reinsurance

Loss reserve calculations for direct insurance business are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. These estimates and judgements are based on numerous factors and may be revised as additional experience or other data becomes available or reviewed as new or improved methodologies are developed or as current laws or regulations change.

Furthermore, as a broker market reinsurer, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to the estimation of the ultimate losses.

Short-tail versus long-tail

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Group, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. However, the timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, and whether the losses are from policies in force with insureds, primary insurers, reinsurers or vendor binding authorities.

Excess of loss versus proportional

For excess of loss contracts, which make up the majority of the Group's business, management are aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

Time lags

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month lag.

Uncertainty

As a result of the time lag described above, an estimation must be made of IBNR reserves, which consist of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Group underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and are therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

As at 31 December 2017, management's estimates for IBNR represented 44.8 per cent of total net loss reserves (31 December 2016 – 34.6 per cent). The majority of the estimate relates to the recent catastrophe events during the latter part of 2017, in addition to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Group was not made aware by the balance sheet date.

B. Market risk

The Group is at risk of loss due to movements in market factors. The main risks include:

i. Insurance risk;
ii. Investment risk;
iii. Debt risk; and
iv. Currency risk.

These risks, and the management thereof, are described below.

I. Insurance risk

The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite;
- changes in regulation including capital, governance or licensing requirements;
- changes in the geopolitical environment including the UK's impending exit from the EU and the implications for business passporting within the EEA; and
- changes in U.S. tax legislation, which came into effect from 1 January 2018. The new rules introduce significant changes to the corporate tax regime. The most significant change to impact the global (re)insurance sector is the base erosion and anti-abuse tax. While the Lancashire Group has no U.S. affiliates, there may be wider implications as this provision will directly impact those foreign reinsurers that have significant intra-group reinsurance arrangements between U.S. and overseas affiliates.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting meeting for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for Cathedral;
- regularly reviews output from BLAST to assess up-to-date profitability of classes and sectors;
- holds a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy;
- holds a fortnightly RRC meeting to monitor estimated exposures to peak zone elemental losses and RDSs; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. Investment risk

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio. Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Committee and the Board of Directors.

The Group's fixed maturity portfolios are managed by five external investment managers. The Group also has a diversified low volatility multi-strategy portfolio of hedge funds, and a small equity portfolio. The performance of the managers is monitored on an ongoing basis.

Within the Group guidelines is a subset of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the 'core' portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core portfolio are typically held in the 'core plus' or the 'surplus' portfolios. The core plus portfolio is invested in fixed maturity securities and cash and cash equivalents. The surplus portfolio is invested in fixed maturity securities, principal protected equity linked notes, derivative instruments, cash and cash equivalents, equity securities and hedge funds. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolio.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform better in a risk-on environment in order to mitigate the impact of a potential rise in interest rates. The Group endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The IRRC meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the fixed maturity portfolios is as follows:

As at 31 December 2017	Core		Core plus		Surplus		Total	
	$m	%	$m	%	$m	%	$m	%
– Short-term investments	**8.8**	**0.6**	**98.7**	**6.7**	**3.6**	**0.2**	**111.1**	**7.5**
– Fixed maturity funds	**31.0**	**2.1**	**–**	**–**	**–**	**–**	**31.0**	**2.1**
– U.S. treasuries	**100.7**	**6.8**	**118.2**	**8.0**	**16.8**	**1.1**	**235.7**	**15.9**
– Other government bonds	**16.4**	**1.1**	**13.4**	**0.9**	**41.6**	**2.8**	**71.4**	**4.8**
– U.S. municipal bonds	**1.9**	**0.1**	**4.1**	**0.3**	**–**	**–**	**6.0**	**0.4**
– U.S. government agency debt	**17.1**	**1.2**	**34.5**	**2.3**	**18.9**	**1.3**	**70.5**	**4.8**
– Asset backed securities	**15.9**	**1.1**	**56.7**	**3.8**	**71.4**	**4.8**	**144.0**	**9.7**
– U.S. government agency mortgage backed securities	**8.4**	**0.6**	**22.4**	**1.5**	**110.2**	**7.6**	**141.0**	**9.7**
– Non-agency mortgage backed securities	**2.2**	**0.1**	**3.3**	**0.2**	**7.7**	**0.5**	**13.2**	**0.8**
– Non-agency commercial mortgage backed securities	**–**	**–**	**0.2**	**–**	**–**	**–**	**0.2**	**–**
– Bank loans	**–**	**–**	**–**	**–**	**106.7**	**7.2**	**106.7**	**7.2**
– Corporate bonds	**168.7**	**11.4**	**264.7**	**18.0**	**88.0**	**6.0**	**521.4**	**35.4**
Total fixed maturity securities – AFS	**371.1**	**25.1**	**616.2**	**41.7**	**464.9**	**31.5**	**1,452.2**	**98.3**
Fixed maturity securities – at FVTPL	**–**	**–**	**–**	**–**	**25.7**	**1.7**	**25.7**	**1.7**
Total fixed maturity securities	**371.1**	**25.1**	**616.2**	**41.7**	**490.6**	**33.2**	**1,477.9**	**100.0**

As at 31 December 2016	Core		Core plus		Surplus		Total	
	$m	%	$m	%	$m	%	$m	%
– Short-term investments	–	–	1.3	0.1	4.0	0.3	5.3	0.4
– Fixed maturity funds	14.5	1.0	–	–	–	–	14.5	1.0
– U.S. treasuries	120.6	8.1	158.2	10.6	26.7	1.8	305.5	20.5
– Other government bonds	15.6	1.0	36.3	2.4	14.7	1.0	66.6	4.4
– U.S. municipal bonds	0.6	–	–	–	0.5	–	1.1	–
– U.S. government agency debt	17.1	1.2	34.9	2.3	29.9	2.0	81.9	5.5
– Asset backed securities	13.4	0.9	69.9	4.7	26.9	1.8	110.2	7.4
– U.S. government agency mortgage backed securities	10.3	0.7	30.5	2.0	77.5	5.2	118.3	7.9
– Non-agency mortgage backed securities	4.5	0.3	7.9	0.5	1.9	0.1	14.3	0.9
– Non-agency commercial mortgage backed securities	3.0	0.2	2.9	0.2	3.7	0.2	9.6	0.6
– Bank loans	–	–	–	–	121.6	8.1	121.6	8.1
– Corporate bonds	151.6	10.1	292.3	19.5	153.4	10.2	597.3	39.8
Total fixed maturity securities – AFS	351.2	23.5	634.2	42.3	460.8	30.7	1,446.2	96.5
Fixed maturity securities – at FVTPL	–	–	–	–	51.6	3.5	51.6	3.5
Total fixed maturity securities	351.2	23.5	634.2	42.3	512.4	34.2	1,497.8	100.0

Bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds by country are as follows:

As at 31 December 2017	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	**183.4**	**300.2**	**483.6**	**–**	**483.6**
Canada	**13.4**	**13.6**	**27.0**	**19.3**	**46.3**
United Kingdom	**15.5**	**12.3**	**27.8**	**2.0**	**29.8**
Netherlands	**9.6**	**10.4**	**20.0**	**6.3**	**26.3**
Germany	**5.2**	**5.7**	**10.9**	**13.9**	**24.8**
France	**15.0**	**3.5**	**18.5**	**5.1**	**23.6**
Australia	**14.5**	**0.2**	**14.7**	**1.0**	**15.7**
Japan	**12.6**	**2.6**	**15.2**	**–**	**15.2**
Sweden	**6.9**	**–**	**6.9**	**5.1**	**12.0**
Luxembourg	**1.5**	**5.3**	**6.8**	**–**	**6.8**
Denmark	**2.1**	**0.3**	**2.4**	**3.9**	**6.3**
Switzerland	**3.0**	**2.6**	**5.6**	**–**	**5.6**
India	**–**	**–**	**–**	**4.2**	**4.2**
Spain	**3.5**	**0.7**	**4.2**	**–**	**4.2**
China	**–**	**1.2**	**1.2**	**2.7**	**3.9**
Other	**5.9**	**3.1**	**9.0**	**7.9**	**16.9**
Total	**292.1**	**361.7**	**653.8**	**71.4**	**725.2**

(1) Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
(2) Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

As at 31 December 2016	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	168.9	388.2	557.1	–	557.1
United Kingdom	41.5	10.3	51.8	2.0	53.8
Canada	13.9	13.2	27.1	15.5	42.6
Netherlands	16.4	17.7	34.1	7.4	41.5
Germany	8.7	8.3	17.0	12.9	29.9
Australia	23.4	4.0	27.4	–	27.4
France	5.0	9.3	14.3	4.2	18.5
Sweden	6.6	0.5	7.1	4.2	11.3
Japan	9.6	–	9.6	–	9.6
Luxembourg	1.8	7.1	8.9	–	8.9
Norway	1.0	–	1.0	5.3	6.3
Hong Kong	–	4.8	4.8	–	4.8
Switzerland	2.8	1.5	4.3	–	4.3
Russian Federation	–	–	–	2.8	2.8
Denmark	–	–	–	2.4	2.4
Other	1.8	4.2	6.0	9.9	15.9
Total	301.4	469.1	770.5	66.6	837.1

(1) Includes bank loans, corporate bonds and fixed maturity securities at FVTPL.
(2) Includes bank loans, corporate bonds, fixed maturity securities at FVTPL and other government bonds.

The sector allocation of bank loans, corporate bonds and fixed maturity securities at FVTPL is as follows:

As at 31 December	2017 $m	2017 %	2016 $m	2016 %
Industrial	**329.1**	**50.3**	425.4	55.2
Financial	**289.5**	**44.3**	300.9	39.1
Utility	**32.6**	**5.0**	43.7	5.7
Supranationals	**2.6**	**0.4**	0.5	–
Total	**653.8**	**100.0**	770.5	100.0

The Group's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, exchange rates and economic environment and outlook.

The Group's investment portfolio is mainly comprised of fixed maturity securities and cash and cash equivalents. The fixed maturity funds are overseas deposits held by Syndicate 2010 and Syndicate 3010 in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed maturity securities. The Group also has small equity and hedge fund portfolios. The estimated fair value of the Group's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

As at 31 December	2017 $m	2017 %	2016 $m	2016 %
Immediate shift in yield (basis points)				
100	**(28.5)**	**(1.9)**	(28.7)	(1.9)
75	**(21.4)**	**(1.4)**	(21.6)	(1.4)
50	**(14.3)**	**(1.0)**	(14.4)	(1.0)
25	**(7.1)**	**(0.5)**	(7.2)	(0.5)
(25)	**7.2**	**0.5**	7.8	0.5
(50)	**14.4**	**1.0**	15.6	1.0
(75)	**21.6**	**1.5**	23.4	1.6
(100)	**28.8**	**1.9**	31.2	2.1

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. The duration of the core portfolio is matched to the modeled duration of the insurance reserves, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years and the surplus portfolio is between one and five years.

The total durations of the externally managed portfolios which are comprised of fixed maturity, cash and cash equivalents and certain derivatives, are as follows:

As at 31 December	2017 years	2016 years
Core portfolio	**1.7**	1.6
Core plus portfolio	**1.7**	1.8
Surplus portfolio[1]	**2.0**	2.2
Overall external portfolio[1]	**1.8**	1.9

(1) Including duration overlay.

The overall duration for fixed maturity, managed cash and cash equivalents and certain derivatives is 1.7 years (2016 – 1.8 years).

In addition to duration management, the Group uses VaR on a monthly basis to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modeling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option-adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99 per cent of the time over a one-year time horizon.

The Group's annual VaR calculations are as follows:

	2017		2016	
As at 31 December	$m	% of shareholders' equity	$m	% of shareholders' equity
99th percentile confidence level[1]	**27.0**	**2.4**	33.3	2.8

(1) Including the impact of internal foreign exchange hedges.

Derivative financial instruments

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, and OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use OTC or exchange-traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group currently invests in the following derivative financial instruments:

a. Futures;
b. Options;
c. Forward foreign currency contracts; and
d. Swaps.

The net losses on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive (loss) income are as follows:

As at 31 December 2017	Net realised losses $m	Net foreign exchange losses $m	Financing losses $m
Treasury futures	**(0.7)**	–	–
Forward foreign currency contracts	–	**(0.7)**	–
Interest rate swaps	–	–	–
Total	**(0.7)**	**(0.7)**	–

As at 31 December 2016	Net realised losses $m	Net foreign exchange losses $m	Financing losses $m
Treasury futures	(2.1)	–	–
Forward foreign currency contracts	–	(1.8)	–
Interest rate swaps	–	–	(1.0)
Total	(2.1)	(1.8)	(1.0)

The estimated fair values of the Group's derivative instruments are as follows:

As at 31 December	2017 Other investments $m	2017 Other receivables $m	2017 Other payables $m	2017 Interest rate swaps $m	2016 Other receivables $m	2016 Other payables $m	2016 Interest rate swaps $m
Forward foreign currency contracts	**(0.5)**	**1.6**	**(0.1)**	**–**	0.6	(0.6)	–
Interest rate swaps	**–**	**–**	**–**	**(2.0)**	–	–	(3.7)
Total	**(0.5)**	**1.6**	**(0.1)**	**(2.0)**	0.6	(0.6)	(3.7)

A. Futures

The Group's investment guidelines permit the use of futures which provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed maturity and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

As at 31 December, the Group had the following exposure to treasury futures:

As at 31 December	2017 Notional long $m	2017 Notional short $m	2017 Net notional long (short) $m	2016 Notional long $m	2016 Notional short $m	2016 Net notional long (short) $m
Treasury futures	**100.1**	**103.5**	**(3.4)**	76.4	104.1	(27.7)
Total	**100.1**	**103.5**	**(3.4)**	76.4	104.1	(27.7)

B. Options

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is $nil as at 31 December 2017 and 2016.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

C. Forward foreign currency contracts

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt and/or insurance related currency exposures.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

	2017			2016		
As at 31 December	Notional long $m	Notional short $m	Net notional long (short) $m	Notional long $m	Notional short $m	Net notional long (short) $m
Canadian Dollar	–	**26.9**	**(26.9)**	–	29.8	(29.8)
Euro	**24.0**	**44.6**	**(20.6)**	–	0.6	(0.6)
Australian Dollar	–	**7.2**	**(7.2)**	–	–	–
Japanese Yen	–	**3.9**	**(3.9)**	–	–	–
Swedish Krona	–	**3.0**	**(3.0)**	–	2.7	(2.7)
Mexican Peso	**1.7**	–	**1.7**	–	–	–
Malaysian Ringgit	**4.9**	–	**4.9**	2.7	–	2.7
British Pound	**53.5**	**4.0**	**49.5**	13.4	0.9	12.5
Total	**84.1**	**89.6**	**(5.5)**	16.1	34.0	(17.9)

D. Swaps

The Group's investment guidelines permit the use of interest rate swaps and credit default swaps which are traded primarily OTC.

Interest rate swaps are used to manage interest rate exposure, portfolio duration or capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio is not material as at 31 December 2017 and 2016. Through the use of interest rate swaps, the Group has fixed the interest rate on Lancashire's subordinated loan notes until December 2020. As at 31 December 2017 the notional amount of interest rate swaps held for hedging purposes was $125.8 million (31 December 2016 – $122.3 million).

III. Debt risk

The Group has issued long-term debt as described in note 17. The LHL subordinated loan notes due in 2035 bear interest at a floating rate that is reset on a quarterly basis, plus a fixed margin of 3.70 per cent. The Group is subject to interest rate risk on the coupon payments of these subordinated loan notes. The Group has mitigated the interest rate risk on the LHL debt by entering into interest rate swap contracts on the following loan notes:

	Maturity date	Interest hedged
Subordinated loan notes $97.0 million	15 December 2035	100%
Subordinated loan notes €24.0 million	15 June 2035	100%

The interest rate swaps expire on 15 December 2020, therefore until 2020 the Group has no cash flow interest rate risk on the LHL subordinated loan notes due in 2035.

The senior unsecured notes maturing 1 October 2022 bear interest at a fixed rate of 5.70 per cent and therefore the Group is not exposed to cash flow interest rate risk on this long-term debt.

On the acquisition of Cathedral, the Group assumed subordinated loan notes as described in note 17. The Group is subject to cash flow interest rate risk on the coupon payment of this long-term debt. An increase of 100 basis points on the EURIBOR and LIBOR three-month deposit rates would result in an increase in the interest expense on long-term debt for the Group of approximately $0.7 million on an annual basis.

IV. Currency risk

The Group underwrites from two locations, Bermuda and London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact profit or loss.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable, dividends payable and the Euro denominated subordinated loan notes discussed in note 17. See page 116 for a listing of the Group's open forward foreign currency contracts.

The Group's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	158.1	16.9	33.6	11.7	36.2	256.5
Accrued interest receivable	6.1	–	–	–	–	6.1
Investments	1,538.2	20.8	82.1	–	13.5	1,654.6
Inwards premiums receivable from insureds and cedants	252.1	13.4	19.7	2.3	10.4	297.9
Reinsurance assets	331.9	6.1	6.1	–	1.9	346.0
Other receivables	39.3	2.5	–	–	0.6	42.4
Investment in associate	59.4	–	–	–	–	59.4
Property, plant and equipment	0.3	2.3	–	–	–	2.6
Deferred acquisition costs	55.2	6.5	9.4	0.9	4.7	76.7
Intangible assets	153.8	–	–	–	–	153.8
Total assets as at 31 December 2017	2,594.4	68.5	150.9	14.9	67.3	2,896.0

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	773.5	38.5	72.9	8.6	40.0	933.5
Unearned premiums	259.7	20.7	37.9	8.6	24.0	350.9
Insurance contracts – other payables	30.4	5.8	2.6	–	1.9	40.7
Amounts payable to reinsurers	62.8	1.5	1.0	–	0.2	65.5
Deferred acquisition costs ceded	2.1	–	0.3	–	0.1	2.5
Other payables	30.8	16.4	0.7	–	0.1	48.0
Corporation tax payable	–	2.8	–	–	–	2.8
Deferred tax liability	7.8	8.7	–	–	–	16.5
Interest rate swap	0.2	–	1.8	–	–	2.0
Long-term debt	283.3	–	43.0	–	–	326.3
Total liabilities as at 31 December 2017	1,450.6	94.4	160.2	17.2	66.3	1,788.7

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	201.0	15.9	25.0	14.0	52.9	308.8
Accrued interest receivable	6.6	–	–	–	–	6.6
Investments	1,593.9	14.8	27.4	–	12.3	1,648.4
Inwards premiums receivable from insureds and cedants	235.4	8.4	17.1	2.7	6.4	270.0
Reinsurance assets	177.3	5.3	3.5	0.3	0.7	187.1
Other receivables	41.1	1.9	–	–	0.6	43.6
Corporation tax receivable	–	1.1	–	–	–	1.1
Investment in associate	49.7	–	–	–	–	49.7
Property, plant and equipment	0.6	4.7	–	–	–	5.3
Deferred acquisition costs	60.8	6.5	7.4	0.7	6.1	81.5
Intangible assets	153.8	–	–	–	–	153.8
Total assets as at 31 December 2016	2,520.2	58.6	80.4	17.7	79.0	2,755.9

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	548.8	34.1	41.1	20.1	35.7	679.8
Unearned premiums	287.7	19.8	34.6	7.4	24.0	373.5
Insurance contracts – other payables	27.0	5.6	3.0	–	1.8	37.4
Amounts payable to reinsurers	51.4	0.9	0.4	–	–	52.7
Deferred acquisition costs ceded	0.4	–	–	–	–	0.4
Other payables	31.0	29.9	–	–	0.1	61.0
Deferred tax liability	7.8	10.9	–	–	–	18.7
Interest rate swap	1.5	–	2.2	–	–	3.7
Long-term debt	283.3	–	37.6	–	–	320.9
Total liabilities as at 31 December 2016	1,238.9	101.2	118.9	27.5	61.6	1,548.1

The impact on net income of a proportional foreign exchange movement of 10.0 per cent up and 10.0 per cent down against the U.S. dollar at the year end spot rates would be an increase or decrease of $3.5 million (2016 – $1.5 million).

The Group uses forward foreign currency contracts for the purposes of managing currency exposures. See page 116 for details of the Group's open forward foreign currency contracts.

C. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Group's main exposures to liquidity risk are with respect to its insurance and investment activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group can be exposed to daily calls on its available investment assets, principally to settle insurance claims and to fund trust accounts following a large catastrophe loss.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame or fund trust accounts;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Group's fixed maturity portfolio are as follows:

As at 31 December 2017	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	**89.5**	**211.0**	**12.6**	**313.1**
Between one and two years	**102.7**	**84.1**	**45.5**	**232.3**
Between two and three years	**95.6**	**103.1**	**27.2**	**225.9**
Between three and four years	**18.8**	**44.1**	**40.4**	**103.3**
Between four and five years	**27.3**	**49.4**	**48.9**	**125.6**
Over five years	**10.7**	**41.9**	**126.7**	**179.3**
Asset backed and mortgage backed securities	**26.5**	**82.6**	**189.3**	**298.4**
Total fixed maturity securities	**371.1**	**616.2**	**490.6**	**1,477.9**

As at 31 December 2016	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	75.7	128.1	47.8	251.6
Between one and two years	108.7	164.0	20.4	293.1
Between two and three years	71.7	116.1	32.4	220.2
Between three and four years	26.3	62.8	42.9	132.0
Between four and five years	13.8	35.8	75.6	125.2
Over five years	23.8	16.2	183.3	223.3
Asset backed and mortgage backed securities	31.2	111.2	110.0	252.4
Total fixed maturity securities	351.2	634.2	512.4	1,497.8

The maturity profile of the insurance contracts and financial liabilities of the Group is as follows:

		Years until liability becomes due – undiscounted values				
As at 31 December 2017	**Balance sheet $m**	**Less than one $m**	**One to three $m**	**Three to five $m**	**Over five $m**	**Total $m**
Losses and loss adjustment expenses	**933.5**	**524.3**	**265.6**	**88.0**	**55.6**	**933.5**
Insurance contracts – other payables	**40.7**	**37.5**	**3.2**	**–**	**–**	**40.7**
Amounts payable to reinsurers	**65.5**	**65.5**	**–**	**–**	**–**	**65.5**
Other payables	**48.0**	**48.0**	**–**	**–**	**–**	**48.0**
Interest rate swap	**2.0**	**0.9**	**1.1**	**–**	**–**	**2.0**
Long-term debt	**326.3**	**15.1**	**36.2**	**167.6**	**354.8**	**573.7**
Total	**1,416.0**	**691.3**	**306.1**	**255.6**	**410.4**	**1,663.4**

		Years until liability becomes due – undiscounted values				
As at 31 December 2016	Balance sheet $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	679.8	269.0	255.2	90.6	65.0	679.8
Insurance contracts – other payables	37.4	34.4	3.0	–	–	37.4
Amounts payable to reinsurers	52.7	52.7	–	–	–	52.7
Other payables	61.0	61.0	–	–	–	61.0
Interest rate swap	3.7	1.6	1.8	0.3	–	3.7
Long-term debt	320.9	14.0	34.6	36.8	496.5	581.9
Total	1,155.5	432.7	294.6	127.7	561.5	1,416.5

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

The Group manages its liquidity risks via its investment strategy to hold high quality, highly liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core portfolio with its subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlook and reallocates assets as deemed necessary.

D. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed maturity portfolio is mitigated through the Group's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 10.0 per cent of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt should exceed 5.0 per cent of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies and other highly-rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and settling of unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral amounts exceeding predetermined thresholds to be posted for positions which have accrued gains.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security, as discussed on page 107.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2017	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	**368.0**	–	–
AA+, AA, AA-	**621.8**	–	**2.7**
A+, A, A-	**403.7**	**69.5**	**177.0**
BBB+, BBB, BBB-	**237.3**	–	–
Other[1]	**103.6**	**291.5**	**104.4**
Total	**1,734.4**	**361.0**	**284.1**

(1) Reinsurance recoveries classified as 'other' include $93.6 million of reserves that are fully collateralised.

As at 31 December 2016	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	221.6	–	–
AA+, AA, AA-	735.8	–	2.6
A+, A, A-	502.5	84.5	126.4
BBB+, BBB, BBB-	231.7	–	–
Other[1]	115.0	245.6	7.7
Total	1,806.6	330.1	136.7

(1) Reinsurance recoveries classified as 'other' include $5.6 million of reserves that are fully collateralised.

The counterparty to the Group's long-term debt interest rate swaps is currently rated A by S&P.

The following table shows inwards premiums receivable that are past due but not impaired:

	2017 $m	2016 $m
Less than 90 days past due	**15.3**	12.3
Between 91 and 180 days past due	**5.3**	5.9
Over 180 days past due	**14.0**	16.1
Total	**34.6**	34.3

Provisions of $2.4 million (2016 – $1.0 million) have been made for impaired or irrecoverable balances and $1.4 million (2016 – $1.2 million release) was charged to the consolidated statement of comprehensive (loss) income in respect of bad debts.

E. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modeled directly within the subsidiaries' capital models. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the Group CRO's quarterly ORSA report to the LHL Board and entity boards and in the Cathedral Risk, Capital and Compliance Committee reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Group's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is audited quarterly. Frequency of audits for all other areas varies from quarterly at the most frequent to a minimum of once every four years, on a rotational basis.

F. Strategic risk

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required; and
- the risks of succession planning, staff retention and key man risks.

I. Business plan risk

The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- feedback to senior management via the daily UMCC and fortnightly RRC meetings.

II. Capital management risk

The total capital of the Group is as follows:

As at 31 December	2017 $m	2016 $m
Shareholders' equity	**1,106.9**	1,207.3
Long-term debt	**326.3**	320.9
Total capital	**1,433.2**	1,528.2
Intangible assets	**(153.8)**	(153.8)
Total tangible capital	**1,279.4**	1,374.4

Risks associated with the effectiveness of the Group's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the Cathedral management team regarding Lloyd's capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in industry groups such as the International Underwriting Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal and regulatory capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board of Directors.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. These approaches are used by management in decision making.

The Group's aim is to provide its shareholders with an RoE of 13.0 per cent in excess of a risk-free rate over the longer term. The return is generated within a broad framework of risk parameters. The return is measured by management in terms of the IRR of the increase in FCBVS in the period adjusted for dividends accrued. This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs – adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

IRR achieved is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2016	13.5	18.4	541.1
31 December 2017	**(5.9)**	**17.7**	**608.2**

IRR achieved in excess of the three-month treasury yield is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2016	13.2	17.4	529.2
31 December 2017	**(6.8)**	**16.7**	**595.2**

The primary source of capital used by the Group is equity shareholders' funds and borrowings (note 17). As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

Under Solvency II the basis for assessing capital and solvency comprises a market-consistent economic balance sheet and an SCR, using either an internal model or the standard formula. Both the Group and LUK calculate their SCR using the standard formula. As the Group's long-term debt is excluded from Solvency II capital ('own funds') both the Group's and LUK's Solvency II own funds are comprised entirely of Tier 1 items for the years ended 31 December 2017 and 31 December 2016. Tier 1 capital is the highest quality capital under Solvency II with the greatest loss absorbing capacity, comprising share capital and retained earnings. For the years ended 31 December 2017 and 2016 the Group and LUK were more than adequately capitalised under the Solvency II regime.

LICL is regulated by the BMA and is required to monitor its solvency capital requirement under the BMA's regulatory framework, which is considered equivalent to the Solvency II regime. LICL's capital requirement is calculated using the BSCR standard formula model. For the years ended 31 December 2017 and 2016, LICL was more than adequately capitalised under the BMA regulatory regime.

The Group's underwriting capacity in its Lloyd's syndicates must be supported by providing a deposit in the form of cash, securities or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage. Solvency II internal models are used to determine capital requirements for Syndicate 2010 and Syndicate 3010 based on the uSCR. Lloyd's has the discretion to take into account other factors at syndicate or member level to uplift the calculated uSCR. This may include perceived deficiencies in the internal model result as well as the need to maintain Lloyd's overall security rating. Currently, as a minimum, Lloyd's applies a 35.0 per cent uplift to each syndicate's uSCR to arrive at the Economic Capital Assessment (ECA).

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirements, which is backed by FAL. For the 2018 calendar year the Group's corporate member's FAL requirement was set at 66.5 per cent (2017 – 75.6 per cent) of underwriting capacity supported. The reduction was driven by a combination of factors including a change in categorisation of future reserves, improved reinsurance planning and actively reducing exposures to less profitable business. Further solvency adjustments are made to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has met its FAL requirement of £184.3 million as at 31 December 2017 (31 December 2016 – £209.4 million).

For the years ended 31 December 2017 and 2016 the capital requirements of all the Group's regulatory jurisdictions were met.

III. Retention risk

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts;
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon; and
- training schemes.

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.

The consolidated financial statements for the year ended 31 December 2017 include the Company's subsidiary companies, the Company's interest in associate, and the Group's share of the Syndicates' assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 22.

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 103 to 106. 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 year ended 31 December 2017	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m
Gross premiums written by geographic area						
U.S. and Canada	80.0	4.7	–	–	92.9	177.6
Worldwide offshore	0.2	94.8	67.5	–	–	162.5
Worldwide, including the U.S. and Canada[1]	30.3	2.5	–	16.9	48.9	98.6
Europe	23.1	–	–	–	15.8	38.9
Far East	16.5	–	–	–	11.4	27.9
Worldwide, excluding the U.S. and Canada[2]	6.0	0.1	–	–	5.4	11.5
Middle East	5.3	–	–	–	1.6	6.9
Rest of world	36.6	(0.3)	0.1	–	31.3	67.7
Total	198.0	101.8	67.6	16.9	207.3	591.6
Outwards reinsurance premiums	(66.3)	(45.1)	(11.3)	(7.2)	(63.7)	(193.6)
Change in unearned premiums	11.6	7.5	(5.6)	4.4	4.7	22.6
Change in unearned premiums on premiums ceded	3.2	6.2	–	(2.5)	0.4	7.3
Net premiums earned	146.5	70.4	50.7	11.6	148.7	427.9
Insurance losses and loss adjustment expenses	(254.9)	(34.7)	(17.3)	1.6	(232.7)	(538.0)
Insurance losses and loss adjustment expenses recoverable	87.3	23.6	0.6	0.6	90.5	202.6
Insurance acquisition expenses	(30.2)	(32.4)	(19.0)	(3.3)	(35.8)	(120.7)
Insurance acquisition expenses ceded	2.6	1.4	0.6	0.1	0.4	5.1
Net underwriting (loss) profit	(48.7)	28.3	15.6	10.6	(28.9)	(23.1)
Net unallocated income and expenses						(49.8)
(Loss) before tax						(72.9)
Net loss ratio	114.4%	15.8%	32.9%	(19.0%)	95.6%	78.4%
Net acquisition cost ratio	18.8%	44.0%	36.3%	27.6%	23.8%	27.0%
Expense ratio	–	–	–	–	–	19.5%
Combined ratio	133.2%	59.8%	69.2%	8.6%	119.4%	124.9%

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) 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.

2. Segmental reporting continued

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
Gross premiums written by geographic area						
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[1]	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[2]	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
Total	219.5	126.0	37.2	36.2	215.0	633.9
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
Net premiums earned	148.5	105.5	35.4	25.5	173.2	488.1
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
Net underwriting profit	106.8	16.4	10.9	18.9	60.5	213.5
Net unallocated income and expenses						(63.1)
Profit before tax						150.4
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%
Combined ratio	28.1%	84.4%	69.2%	25.9%	65.1%	76.5%

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) 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.

3. Investment return

The total investment return for the Group is as follows:

For the year ended 31 December 2017	Net investment income and net other investment income[1] $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 (losses) $m	Total investment return including foreign exchange $m
Fixed maturity securities – AFS	**28.6**	**(2.9)**	**2.1**	**27.8**	**9.8**	**37.6**
Fixed maturity securities – at FVTPL	**(1.0)**	**2.4**	**–**	**1.4**	**–**	**1.4**
Equity securities – AFS	**–**	**0.8**	**2.8**	**3.6**	**–**	**3.6**
Hedge funds – at FVTPL	**1.1**	**9.5**	**–**	**10.6**	**–**	**10.6**
Other investments	**1.1**	**(0.7)**	**–**	**0.4**	**(2.6)**	**(2.2)**
Cash and cash equivalents	**1.9**	**–**	**–**	**1.9**	**0.5**	**2.4**
Total investment return	**31.7**	**9.1**	**4.9**	**45.7**	**7.7**	**53.4**

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

For the year ended 31 December 2016	Net investment income and net other investment income[1] $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 (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
Total investment return	36.7	(2.4)	4.1	38.4	(1.6)	36.8

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

Net realised gains (losses) and impairments includes impairment losses of $1.3 million (2016 – $3.5 million) recognised on fixed maturity securities and $nil (2016 – $0.4 million) recognised on equity securities held by the Group.

Refer to pages 114 to 115 in the risk disclosures section for the estimated fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments.

Included in net investment income and net other investment income is $4.6 million (2016 – $4.5 million) of investment management, accounting and custodian fees.

4. Net insurance acquisition expenses

	2017 $m	2016 $m
Insurance acquisition expenses	**115.9**	129.4
Changes in deferred insurance acquisition expenses	**4.8**	5.7
Insurance acquisition expenses ceded	**(7.2)**	(3.1)
Changes in deferred insurance acquisition expenses ceded	**2.1**	0.1
Total net insurance acquisition expenses	**115.6**	132.1

5. Results of operating activities

Results of operating activities are stated after charging the following amounts:

	2017 $m	2016 $m
Depreciation on owned assets	**1.8**	2.3
Operating lease charges	**3.4**	2.3
Auditors' remuneration		
– Group audit fees	**1.8**	1.8
– Other services	**–**	0.1
Total	**7.0**	6.5

During 2017, KPMG provided non-audit services in relation to specified work over the distributable reserves and pre-appointment procedures on the first quarter 2017 earnings release. Fees for non-audit services provided in 2017 totalled twenty thousand dollars. During 2016, EY provided non-audit services in relation to taxation services. All fees paid to the Group's auditors for non-audit services are approved by the Group's Audit Committee.

6. Employee benefits

	2017 $m	2016 $m
Wages and salaries	**27.6**	27.1
Pension costs	**2.5**	3.1
Bonus and other benefits	**10.1**	31.2
Total cash compensation	**40.2**	61.4
RSS – performance	**(1.9)**	8.3
RSS – ordinary	**2.9**	1.2
RSS – bonus deferral	**2.1**	2.0
RSS – Cathedral acquisition grant	**(3.5)**	(0.8)
Total equity based compensation	**(0.4)**	10.7
Total employee benefits	**39.8**	72.1

Equity based compensation

The Group's equity based compensation scheme is its RSS. All outstanding and future RSS grants have an exercise period of ten years from the grant date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2017 and 2016:

Assumptions	2017	2016
Dividend yield	**–**	–
Expected volatility[1]	**25.1%**	22.2%
Risk-free interest rate[2]	**0.1%**	0.5%
Expected average life of options	**3 years**	3 years
Share price	**$8.60**	$8.85

(1) The expected volatility of LHL and comparator companies' share prices are calculated based on the movement in the share prices over a period prior to the grant date, equal in length to the expected life of the award.
(2) The risk-free interest rate is consistent with three- year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0 per cent per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – Performance

The performance RSS options vest after a three-year period and are dependent on certain performance criteria. A maximum of 75.0 per cent of the performance RSS options will vest only on the achievement of an RoE in excess of a required amount. A maximum of 25.0 per cent of the performance RSS options will vest only on the achievement of a TSR in excess of the 75th percentile of the TSR of a predefined comparator group. For all RSS options issued in 2012 and earlier the performance criteria was split as 50.0 per cent relating to RoE and 50.0 per cent relating to TSR. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Total number of restricted stock
Outstanding as at 31 December 2015	3,272,137
Granted	886,916
Exercised	(499,296)
Forfeited	(72,024)
Lapsed	(224,576)
Outstanding as at 31 December 2016	3,363,157
Granted	**1,018,933**
Exercised	**(509,524)**
Forfeited	**(156,461)**
Lapsed	**(257,894)**
Outstanding as at 31 December 2017	**3,458,211**
Exercisable as at 31 December 2016	226,863
Exercisable as at 31 December 2017	**249,112**

	2017	2016
	Total restricted stock	Total restricted stock
Weighted average remaining contractual life	**7.8 years**	8.0 years
Weighted average fair value at date of grant during the year	**$7.56**	$7.60
Weighted average share price at date of exercise during the year	**$8.82**	$8.27

RSS – Ordinary

The ordinary RSS options were issued for the first time in 2016 and vest three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. These awards will become exercisable in the first open period following the release of the Company's 2018 year-end results after the Board meeting in February 2019.

	Total number of restricted stock
Granted	688,714
Forfeited	(91,194)
Outstanding as at 31 December 2016	597,520
Granted	**699,251**
Forfeited	**(10,025)**
Outstanding as at 31 December 2017	**1,286,746**

	2017	2016
	Total restricted stock	Total restricted stock
Weighted average remaining contractual life	**8.7 years**	9.1 years
Weighted average fair value at date of grant during the year	**$8.49**	$8.85

6. Employee benefits continued

RSS – Bonus deferral

The bonus deferral RSS options vesting periods range from one to three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Number of employee restricted stock	Number of non-employee restricted stock	Total number of restricted stock
Outstanding as at 31 December 2015	435,275	2,555	437,830
Granted	270,752	–	270,752
Exercised	(180,737)	–	(180,737)
Forfeited	(1,727)	–	(1,727)
Outstanding as at 31 December 2016	523,563	2,555	526,118
Granted	**244,523**	**–**	**244,523**
Exercised	**(220,448)**	**–**	**(220,448)**
Forfeited	**–**	**(2,555)**	**(2,555)**
Outstanding as at 31 December 2017	**547,638**	**–**	**547,638**
Exercisable as at 31 December 2016	80,576	2,555	83,131
Exercisable as at 31 December 2017	**78,295**	**–**	**78,295**

	2017			2016		
	Employee restricted stock	Non-employee restricted stock	Total restricted stock	Employee restricted stock	Non-employee restricted stock	Total restricted stock
Weighted average remaining contractual life	**8.3 years**	**–**	**8.3 years**	8.5 years	0.1 years	8.5 years
Weighted average fair value at date of grant during the year	**$8.58**	**–**	**$8.58**	$7.72	–	$7.72
Weighted average share price at date of exercise during the year	**$8.73**	**–**	**$8.73**	$8.24	–	$8.24

RSS – Cathedral acquisition

The Cathedral acquisition RSS options vesting periods range from three to five years and are dependent on certain performance criteria. A maximum of 75.0 per cent of the Cathedral acquisition RSS options will vest on the achievement of a Cathedral combined ratio below a required amount. A maximum of 25.0 per cent of the Cathedral acquisition RSS options vest on the achievement of an LHL RoE in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. The first tranche of awards were exercisable in 2017.

	Total number of restricted stock
Outstanding as at 31 December 2015	2,307,157
Forfeited	(950,907)
Outstanding as at 31 December 2016	1,356,250
Exercised	**(400,166)**
Forfeited	**(556,768)**
Lapsed	**(29,838)**
Outstanding as at 31 December 2017	**369,478**
Exercisable as at 31 December 2017	**205,955**

	2017	2016
	Total restricted stock	Total restricted stock
Weighted average remaining contractual life	**5.9 years**	6.9 years
Weighted average fair value at date of grant	**$13.01**	$13.01

7. Financing costs

	2017 $m	2016 $m
Interest expense on long-term debt	**16.4**	15.6
Net losses on interest rate swaps	**–**	1.0
Other financing costs	**1.1**	1.6
Total	**17.5**	18.2

Refer to note 17 for details of long-term debt and financing arrangements.

8. 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 its UK subsidiaries are subject to normal UK corporation tax on all their taxable profits.

	2017 $m	2016 $m
Corporation tax charge for the period	**3.3**	2.7
Adjustments in respect of prior period corporation tax	**(2.3)**	(2.4)
Deferred tax credit for the period	**(4.1)**	(4.0)
Tax rate change adjustment	**(0.6)**	(0.8)
Adjustments in respect of prior period deferred tax	**1.4**	0.6
Total tax credit	**(2.3)**	(3.9)

Tax reconciliation[1]	2017 $m	2016 $m
(Loss) profit before tax	**(72.9)**	150.4
Corporation tax at 19.3% (2016 – 20.0%)	**(14.1)**	30.1
Non-taxable loss (income)	**10.1**	(34.4)
Adjustments in respect of prior period	**(0.9)**	(1.8)
Differences related to equity based compensation	**(0.6)**	0.6
Other expense permanent differences	**3.8**	3.1
Tax rate change adjustment	**(0.6)**	(0.8)
Unused tax losses not recognised for deferred tax	**–**	0.6
Utilisation of tax losses previously unrecognised for deferred tax	**–**	(1.3)
Total tax credit	**(2.3)**	(3.9)

(1) All tax reconciling balances have been classified as recurring items.

The current tax credit as a percentage of the Group's loss (2016 – profit) before tax is negative 3.2 per cent (2016 – 2.6 per cent). Non-taxable (loss) income relates to (losses) profits of companies within the Group that are non-tax resident in the UK and the share of (loss) profit of associate.

Refer to note 10 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive loss within shareholders' equity.

9. Cash and cash equivalents

	2017 $m	2016 $m
Cash at bank and in hand	**107.0**	122.4
Cash equivalents	**149.5**	186.4
Total cash and cash equivalents	**256.5**	308.8

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Refer to note 17 for the cash and cash equivalent balances on deposit as collateral. Cash and cash equivalents includes managed cash of $188.1 million (31 December 2016 – $192.1 million).

10. Investments

As at 31 December 2017	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value $m
Fixed maturity securities – AFS				
– Short-term investments	**111.2**	**–**	**(0.1)**	**111.1**
– Fixed maturity funds	**31.2**	**–**	**(0.2)**	**31.0**
– U.S. treasuries	**237.4**	**0.1**	**(1.8)**	**235.7**
– Other government bonds	**71.2**	**0.8**	**(0.6)**	**71.4**
– U.S. municipal bonds	**6.0**	**–**	**–**	**6.0**
– U.S. government agency debt	**71.2**	**–**	**(0.7)**	**70.5**
– Asset backed securities	**139.5**	**4.9**	**(0.4)**	**144.0**
– U.S. government agency mortgage backed securities	**142.4**	**0.4**	**(1.8)**	**141.0**
– Non-agency mortgage backed securities	**13.2**	**0.2**	**(0.2)**	**13.2**
– Non-agency commercial mortgage backed securities	**0.2**	**–**	**–**	**0.2**
– Bank loans	**106.5**	**0.8**	**(0.6)**	**106.7**
– Corporate bonds	**520.1**	**3.6**	**(2.3)**	**521.4**
Total fixed maturity securities – AFS	**1,450.1**	**10.8**	**(8.7)**	**1,452.2**
Fixed maturity securities – at FVTPL	**25.7**	**–**	**–**	**25.7**
Equity securities – AFS	**20.0**	**3.2**	**–**	**23.2**
Hedge funds – at FVTPL	**144.6**	**9.8**	**(0.4)**	**154.0**
Other investments	**–**	**–**	**(0.5)**	**(0.5)**
Total investments	**1,640.4**	**23.8**	**(9.6)**	**1,654.6**

As at 31 December 2016	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value $m
Fixed maturity securities – AFS				
– 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
Total fixed maturity securities – AFS	1,455.6	4.5	(13.9)	1,446.2
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
Total investments	1,649.4	13.8	(14.8)	1,648.4

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

	2017 $m	2016 $m
Unrealised gains	**14.0**	5.3
Unrealised losses	**(8.7)**	(14.3)
Net unrealised foreign exchange (gains) losses on fixed maturity securities – AFS	**(6.9)**	2.5
Tax provision	**0.1**	0.1
Accumulated other comprehensive loss	**(1.5)**	(6.4)

Fixed maturity securities are presented in the risk disclosures section on page 120. Refer to note 17 for the investment balances in trusts in favour of ceding companies and on deposit as collateral.

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio 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 report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including 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 the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

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.

10. Investments continued

Level (ii)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities 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;
- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

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

- Short-term investments;
- Fixed maturity funds;
- Other 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 technique incorporates 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. Historically 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 would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

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.

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

As at 31 December 2017	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
– Short-term investments	**104.6**	**6.5**	**–**	**111.1**
– Fixed maturity funds	**–**	**31.0**	**–**	**31.0**
– U.S. treasuries	**235.7**	**–**	**–**	**235.7**
– Other government bonds	**–**	**71.4**	**–**	**71.4**
– U.S. municipal bonds	**–**	**6.0**	**–**	**6.0**
– U.S. government agency debt	**–**	**70.5**	**–**	**70.5**
– Asset backed securities	**–**	**144.0**	**–**	**144.0**
– U.S. government agency mortgage backed securities	**–**	**141.0**	**–**	**141.0**
– Non-agency mortgage backed securities	**–**	**13.2**	**–**	**13.2**
– Non-agency commercial mortgage backed securities	**–**	**0.2**	**–**	**0.2**
– Bank loans	**–**	**106.7**	**–**	**106.7**
– Corporate bonds	**–**	**521.4**	**–**	**521.4**
Total fixed maturity securities – AFS	**340.3**	**1,111.9**	**–**	**1,452.2**
Fixed maturity securities – at FVTPL	**–**	**25.7**	**–**	**25.7**
Equity securities – AFS	**23.2**	**–**	**–**	**23.2**
Hedge funds – at FVTPL	**–**	**–**	**154.0**	**154.0**
Other investments	**–**	**(0.5)**	**–**	**(0.5)**
Total investments	**363.5**	**1,137.1**	**154.0**	**1,654.6**

10. Investments continued

As at 31 December 2016	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities – AFS				
– 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
Total fixed maturity securities – AFS	309.5	1,136.7	–	1,446.2
Fixed maturity securities – at FVTPL	–	51.6	–	51.6
Equity securities – AFS	21.2	–	–	21.2
Hedge funds – at FVTPL	–	–	129.4	129.4
Total investments	330.7	1,188.3	129.4	1,648.4

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:

	Hedge funds $m
As at 31 December 2015	156.0
Sales	(30.3)
Total net realised and unrealised gains recognised in profit or loss	3.7
As at 31 December 2016	129.4
Purchases	**149.7**
Sales	**(136.5)**
Total net realised and unrealised gains recognised in profit or loss	**11.4**
As at 31 December 2017	**154.0**

11. Interests in structured entities

A. Consolidated structured entities

The Group's two consolidated structured entities are the EBT and the Orange Fund.

- The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT.
- The Orange Fund was opened during 2017 and holds short duration high-quality cash equivalents and fixed maturity securities, and Lancashire Group companies are the only investors in the Orange Fund. The primary objectives of the fund are to preserve capital and provide liquidity to support the Group's operations.

B. Unconsolidated structured entities in which the Group has an interest

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2017, the Group's total interest in unconsolidated structured entities was $511.8 million (31 December 2016 – $431.5 million). The Group does not sponsor any of the unconsolidated structured entities.

A summary of the Group's interest in consolidated and unconsolidated structured entities is as follows:

As at 31 December 2017	Orange Fund $m	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities				
– Asset backed securities	**8.1**	**135.9**	**–**	**144.0**
– U.S. government agency mortgage backed securities	**3.1**	**137.9**	**–**	**141.0**
– Non-agency mortgage backed securities	**–**	**13.2**	**–**	**13.2**
– Non-agency commercial mortgage backed securities	**–**	**0.2**	**–**	**0.2**
Total fixed maturity securities	**11.2**	**287.2**	**–**	**298.4**
Investment funds				
– Hedge funds	**–**	**154.0**	**–**	**154.0**
Total investment funds	**–**	**154.0**	**–**	**154.0**
Specialised investment vehicles				
– KHL (note 15)	**–**	**–**	**59.4**	**59.4**
Total	**11.2**	**441.2**	**59.4**	**511.8**

As at 31 December 2016	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
– 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
Total fixed maturity securities	252.4	–	252.4
Investment funds			
– Hedge funds	129.4	–	129.4
Total investment funds	129.4	–	129.4
Specialised investment vehicles			
– KHL (note 15)	–	49.7	49.7
Total	381.8	49.7	431.5

The fixed maturity structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed maturity securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories detailed above.

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the consolidated balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosures for these financial instruments and other investments is provided on pages 110 to 121. The total assets of these structured entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group holds as at 31 December 2017 and 31 December 2016. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and regularly through the holding period for the security. The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there is no intention to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

11. Interests in structured entities continued

As at 31 December 2017 the Group has a commitment of $100.0 million (31 December 2016 – $50.0 million) in respect of two credit facility funds. The Group, via the funds, provides collateral for revolving credit facilities purchased at a discount from financial institutions and is at risk for its portion of any defaults on those revolving credit facilities. The Group's proportionate share of these revolving credit facilities purchased by the funds as at 31 December 2017 is $64.4 million (31 December 2016 – $37.5 million), which currently remains unfunded. The maximum exposure to the credit facility funds is $100.0 million and as at 31 December 2017 there have been no defaults under these facilities.

12. Losses and loss adjustment expenses

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at 31 December 2015	671.0	(83.9)	587.1
Net incurred losses for:			
Prior years	(89.7)	3.9	(85.8)
Current year	301.9	(73.6)	228.3
Exchange adjustments	(3.8)	1.4	(2.4)
Incurred losses and loss adjustment expenses	208.4	(68.3)	140.1
Net paid losses for:			
Prior years	139.4	(8.0)	131.4
Current year	60.2	(7.5)	52.7
Paid losses and loss adjustment expenses	199.6	(15.5)	184.1
As at 31 December 2016	679.8	(136.7)	543.1
Net incurred losses for:			
Prior years	**(40.1)**	**(25.0)**	**(65.1)**
Current year	**578.1**	**(177.6)**	**400.5**
Exchange adjustments	**18.8**	**(0.7)**	**18.1**
Incurred losses and loss adjustment expenses	**556.8**	**(203.3)**	**353.5**
Net paid losses for:			
Prior years	**231.1**	**(50.2)**	**180.9**
Current year	**72.0**	**(5.7)**	**66.3**
Paid losses and loss adjustment expenses	**303.1**	**(55.9)**	**247.2**
As at 31 December 2017	**933.5**	**(284.1)**	**649.4**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 107. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20.0 per cent increase in estimated losses would lead to a $186.7 million (31 December 2016 – $136.0 million) increase in gross loss reserves. There was no change to the Group's reserving methodology during the year. The split of losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

	2017		2016	
As at 31 December	$m	%	$m	%
Outstanding losses	**300.4**	**32.2**	328.1	48.3
Additional case reserves	**186.5**	**20.0**	144.5	21.3
Losses incurred but not reported	**446.6**	**47.8**	207.2	30.4
Total	**933.5**	**100.0**	679.8	100.0

The Group's reserve for unpaid losses and loss adjustment expenses as at 31 December 2017 and 2016 had an estimated duration of approximately two years.

Claims development

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of Cathedral in 2013, the Group assumed additional loss reserves relating to 2001 and subsequent years.

Accident year	2007 and prior $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	Total $m
Gross Group losses												
Estimate of ultimate liability[1]												
At end of accident year	228.6	444.6	163.3	297.4	397.0	250.3	280.0	274.8	276.0	298.5	580.1	
One year later	163.2	417.4	107.8	209.4	371.9	350.4	259.8	226.7	214.6	310.7		
Two years later	131.1	377.5	73.1	204.2	447.0	338.8	224.0	206.0	196.2			
Three years later	122.0	345.1	66.0	235.8	450.4	326.9	224.4	196.5				
Four years later	107.9	340.8	89.1	229.4	460.0	313.3	222.1					
Five years later	105.0	355.6	81.7	231.4	450.7	308.7						
Six years later	148.2	350.9	72.9	229.8	452.6							
Seven years later	146.4	353.6	90.8	229.6								
Eight years later	143.1	352.5	89.6									
Nine years later	142.4	353.1										
Ten years later	140.6											
Current estimate of cumulative liability	**140.6**	**353.1**	**89.6**	**229.6**	**452.6**	**308.7**	**222.1**	**196.5**	**196.2**	**310.7**	**580.1**	**3,079.8**
Paid	**(113.1)**	**(341.1)**	**(60.2)**	**(215.9)**	**(421.4)**	**(267.3)**	**(200.0)**	**(167.5)**	**(153.5)**	**(134.3)**	**(72.0)**	**(2,146.3)**
Total Group gross liability	**27.5**	**12.0**	**29.4**	**13.7**	**31.2**	**41.4**	**22.1**	**29.0**	**42.7**	**176.4**	**508.1**	**933.5**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2017.

Accident year	2007 and prior $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	Total $m
Reinsurance												
Estimate of ultimate recovery[1]												
At end of accident year	3.6	40.7	1.6	33.8	56.2	48.9	9.9	17.8	15.3	73.1	177.6	
One year later	6.2	47.1	1.3	23.6	52.6	121.8	8.9	14.1	12.2	98.5		
Two years later	4.0	43.1	0.7	24.1	92.4	122.0	8.8	13.1	12.6			
Three years later	3.5	40.9	0.7	33.5	88.9	121.2	8.0	11.5				
Four years later	3.3	38.1	10.0	34.4	103.3	121.2	8.0					
Five years later	3.1	40.7	7.0	34.6	102.8	121.2						
Six years later	29.1	39.8	2.5	35.7	106.1							
Seven years later	29.2	40.4	2.5	36.2								
Eight years later	28.8	40.9	1.3									
Nine years later	27.8	41.0										
Ten years later	26.6											
Current estimate of cumulative recovery	**26.6**	**41.0**	**1.3**	**36.2**	**106.1**	**121.2**	**8.0**	**11.5**	**12.6**	**98.5**	**177.6**	**640.6**
Paid	**(7.3)**	**(39.0)**	**0.5**	**(34.4)**	**(99.2)**	**(117.8)**	**(7.4)**	**(8.0)**	**(12.0)**	**(26.2)**	**(5.7)**	**(356.5)**
Total Group gross recovery	**19.3**	**2.0**	**1.8**	**1.8**	**6.9**	**3.4**	**0.6**	**3.5**	**0.6**	**72.3**	**171.9**	**284.1**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2017.

12. Losses and loss adjustment expenses continued

Accident year	2007 and prior $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	Total $m
Net Group losses												
Estimate of ultimate liability[1]												
At end of accident year	225.0	403.9	161.7	263.6	340.8	201.4	270.1	257.0	260.7	225.4	402.5	
One year later	157.0	370.3	106.5	185.8	319.3	228.6	250.9	212.6	202.4	212.2		
Two years later	127.1	334.4	72.4	180.1	354.6	216.8	215.2	192.9	183.6			
Three years later	118.5	304.2	65.3	202.3	361.5	205.7	216.4	185.0				
Four years later	104.6	302.7	79.1	195.0	356.7	192.1	214.1					
Five years later	101.9	314.9	74.7	196.8	347.9	187.5						
Six years later	119.1	311.1	70.4	194.1	346.5							
Seven years later	117.2	313.2	88.3	193.4								
Eight years later	114.3	311.6	88.3									
Nine years later	114.6	312.1										
Ten years later	114.0											
Current estimate of cumulative liability	**114.0**	**312.1**	**88.3**	**193.4**	**346.5**	**187.5**	**214.1**	**185.0**	**183.6**	**212.2**	**402.5**	**2,439.2**
Paid	**(105.8)**	**(302.1)**	**(60.7)**	**(181.5)**	**(322.2)**	**(149.5)**	**(192.6)**	**(159.5)**	**(141.5)**	**(108.1)**	**(66.3)**	**(1,789.8)**
Total Group net liability	**8.2**	**10.0**	**27.6**	**11.9**	**24.3**	**38.0**	**21.5**	**25.5**	**42.1**	**104.1**	**336.2**	**649.4**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2017.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

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

Despite some adverse development on prior accident year property and energy claims in 2017, the overall favourable development was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. Experience in 2016 was similar in terms of releases, offset partially by some adverse development on prior accident year energy and marine claims.

In September 2017, hurricanes Harvey, Irma and Maria made landfall in the Caribbean and U.S., causing significant damage and destruction to property. These events were followed by wildfires in California during October 2017 and December 2017. Management's current best estimates in relation to each of these events are shown in the table below.

The Group's estimated ultimate net losses, after reinstatement premiums, for these significant events are as follows:

	Harvey $m	Irma $m	Maria $m	Combined California Wildfires $m
Change in insurance losses and loss adjustment expenses	**66.3**	**108.9**	**78.5**	**75.9**
Change in insurance losses and loss adjustment expenses recoverable	**(18.5)**	**(55.1)**	**(43.1)**	**(41.4)**
Change in reinstatement premiums	**(3.3)**	**(1.7)**	**(2.3)**	**(0.4)**
Net ultimate losses as at 31 December 2017	**44.5**	**52.1**	**33.1**	**34.1**

13. Insurance, reinsurance and other receivables

All receivables are considered current other than $53.7 million (31 December 2016 – $58.4 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Group's receivables.

14. Provision for deferred tax

	2017 $m	2016 $m
Equity based compensation	**(2.9)**	(3.8)
Claims equalisation reserves	**8.3**	8.1
Syndicate underwriting profits	**0.1**	2.7
Syndicate participation rights	**12.7**	12.8
Other temporary differences	**(1.2)**	(0.9)
Tax losses carried forward	**(0.5)**	(0.2)
Net deferred tax liability	**16.5**	18.7

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

A deferred tax asset of $10.9 million (31 December 2016 – $11.4 million) has not been recognised in relation to unused tax losses carried forward in LHL, because at present the related tax benefit is not expected to be realised through future taxable profits. For the years ended 31 December 2017 and 2016, the Group had no uncertain tax positions.

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 19.0 per cent from 1 April 2017 and to 17.0 per cent from 1 April 2020.

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

15. Investment in associate

The Group holds a 10.0 per cent interest in the preference shares of each segregated account of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2017, the carrying value of the Group's investment in KHL was $59.4 million (31 December 2016 – $49.7 million). The Group's share of comprehensive loss for KHL for the period was $9.4 million (2016 – $5.1 million income). Key financial information for KHL is as follows:

	2017 $m	2016 $m
Assets	**736.4**	506.5
Liabilities	**141.9**	9.2
Shareholders' equity	**594.5**	497.3
Gross premium earned	**71.7**	54.2
Comprehensive (loss) income	**(94.3)**	51.1

The Group has the power to participate in operational and financial policy decisions of KHL and KRL through the provision of essential technical information by KCML and has therefore classified its investment in KHL as an investment in associate.

Refer to note 22 for details of transactions between the Group and its associate.

16. Intangible assets

	Syndicate participation rights $m	Goodwill $m	Total $m
Net book value as at 31 December 2017 and 2016	**82.6**	**71.2**	**153.8**

Syndicate participation rights and goodwill are deemed to have an indefinite life as they are expected to have value in use that does not diminish over the course of time. Consequently, the carrying value is not amortised but tested annually for impairment.

For the purpose of impairment testing, intangible assets are allocated to the Group's CGUs, in accordance with the manner in which management operates and monitors the business. The Syndicate participation rights and goodwill have therefore been allocated to the Lloyd's CGU.

When testing for impairment, the recoverable amount of the Lloyd's CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a three year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outwards reinsurance expenditure and investment returns. A pre-tax discount rate of 6.2 per cent (2016 – 6.9 per cent) has been used to discount the projected cash flows, which reflects a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows is 3.0 per cent (2016 – 3.0 per cent) based on historical growth rates and management's best estimate of future growth rates.

The results of this exercise indicate that the recoverable amount exceeds the intangible assets' carrying value for both the syndicate participation rights and the goodwill and would not be sensitive to any reasonably possible changes in assumptions. Therefore no impairment has been recognised during the years ended 31 December 2017 and 2016.

17. Long-term debt and financing arrangements

Long-term debt

On 5 October 2012, the Group issued $130.0 million 5.70 per cent senior unsecured notes due 2022 pursuant to a private offering to U.S. Qualified Institutional Buyers. Interest on the principal is payable semi-annually. The notes were listed and admitted to trading on the LSE on 16 October 2012.

On 15 December 2005, the Group issued $97.0 million and €24.0 million in aggregate principal amount of floating rate subordinated loan notes. The U.S. dollar subordinated loan notes are repayable on 15 December 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the three-month LIBOR and is payable quarterly. The loan notes were issued via a trust company.

The Euro subordinated loan notes are repayable on 15 June 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the EURIBOR and is payable quarterly. On 21 October 2011, the CSX admitted to the official list the LHL U.S. dollar and Euro subordinated loan notes due 2035.

In 2013, the Group assumed loan notes, issued by CCHL and listed on the ISE, as part of the Cathedral acquisition. The loan notes acquired are set out as follows:

- €12.0 million floating rate subordinated loan note issued on 18 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above the three-month EURIBOR;
- $10.0 million floating rate subordinated note loan issued on 26 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above the three-month LIBOR;
- $25.0 million floating rate subordinated loan note issued on 13 May 2005 and repayable in June 2035, paying interest quarterly based on a set margin, 3.25 per cent, above the three-month LIBOR; and
- $25.0 million floating rate subordinated loan note issued on 18 November 2005 and repayable in December 2035, paying interest quarterly based on a set margin, 3.25 per cent, above the three-month LIBOR.

The Group has the option to redeem its senior unsecured notes and all of its subordinated loan notes, in whole or in part, prior to the respective maturity dates.

The terms of the $130.0 million senior unsecured notes include standard default and cross-default provisions which require certain covenants to be adhered to. These include the following:

- a maximum debt-to-capital ratio of 30.0 per cent, where the subordinated loan notes are included as both total consolidated debt and total consolidated capital in this calculation.

There are no such covenants for either the $97.0 million and €24.0 million in aggregate floating rate subordinated loan notes or the loan notes issued by CCHL.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The carrying values of the notes are shown below:

As at 31 December	2017 $m	2016 $m
Long-term debt $130.0 million	**130.0**	130.0
Long-term debt $97.0 million	**97.0**	97.0
Long-term debt €24.0 million	**28.8**	25.3
Long-term debt €12.0 million	**13.1**	11.2
Long-term debt $10.0 million	**10.0**	10.0
Long-term debt $25.0 million	**23.7**	23.7
Long-term debt $25.0 million	**23.7**	23.7
Carrying value	**326.3**	320.9

The Group is exposed to cash flow interest rate risk and currency risk on its long-term debt. Further information is provided in the risk disclosures section on page 117.

The fair value of the long-term debt is estimated as $369.3 million (31 December 2016 – $354.8 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy. The fair value is estimated by reference to similar financial instruments quoted in active markets.

The interest accrued on the long-term debt was $2.3 million (31 December 2016 – $2.0 million) at the balance sheet date and is included in other payables.

Refer to note 7 for details of the interest expense for the year included in financing costs.

Interest rate swaps

The Group hedges a portion of its floating rate borrowings using interest rate swaps to transfer floating to fixed rate. These instruments are held at estimated fair value. Refer to the risk disclosures section from page 116 for further details. The Group has the right to net settle these instruments.

The net fair value position owed by the Group on the swap agreements is $2.0 million (31 December 2016 – $3.7 million). Further information is provided on pages 114 to 116. Cash settlements are completed on a quarterly basis and the total of the next cash settlements in the first quarter of 2018 on these instruments is $0.3 million. The net impact from cash settlements and changes in estimated fair value are included in financing costs.

The interest rate swaps are held at estimated fair value, priced using observable market inputs, and are therefore classified as Level (ii) securities in the fair value hierarchy.

Refer to note 7 for the net impact from cash settlement and changes in estimated fair value included in financing costs.

Letters of credit

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral. The following LOCs have been issued:

As at 31 December	2017 $m	2016 $m
Issued to third parties	**31.0**	29.4

LOCs are required to be fully collateralised.

17. Long-term debt and financing arrangements continued

LHL and LICL had the following facilities in place:

- a $300.0 million syndicated collateralised credit facility with a $75.0 million loan sub-limit that has been in place since 24 March 2016 and will expire on 24 March 2021. There was no outstanding debt under this facility as at 31 December 2017 and 2016; and
- a $350.0 million syndicated collateralised credit facility with a $75.0 million loan sub-limit that had been in place since 5 April 2012 and was replaced on 24 March 2016 by the $300.0 million syndicated collateralised credit facility.

The existing facility is available for the issue of LOCs to ceding companies. The facility is also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The terms of the $300.0 million syndicated collateralised credit facility include standard default and cross-default provisions that are broadly consistent with the previous facility, which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt-to-capital ratio of 30.0 per cent, where the subordinated loan notes are excluded from this calculation;
- a maximum indebtedness regarding the subordinated loan notes of $250.0 million; and
- a maximum indebtedness regarding the Syndicate 2010 and 3010 catastrophe facilities of $150.0 million.

A $130.0 million syndicated uncollateralised facility has been in place since 3 October 2017 and will expire on 31 December 2018. It is available for utilisation by LICL and guaranteed by LHL for FAL purposes. As at 31 December 2017 $130.0 million of LOCs were issued under this facility.

The terms of the $130.0 million syndicated uncollateralised facility includes standard default and cross-default provisions and require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++;
- a maximum debt-to-capital ratio of 30.0 per cent, where the subordinated loan notes are excluded from this calculation;
- a maximum indebtedness regarding the subordinated loan notes of $250.0 million; and
- maintenance of a minimum net worth requirement.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

Syndicate bank facilities

As at 31 December 2017 and 2016, Syndicate 2010 had in place an $80.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $40.0 million can be utilised by way of an LOC and up to $40.0 million by way of an RCF to assist Syndicate 2010's gross funding requirements. For 2018, up to $80.0 million can be utilised by way of an LOC or an RCF to assist Syndicate 2010's gross funding requirements.

As at 31 December 2016, Syndicate 3010 had in place a $40.0 million catastrophe facility with Barclays Bank plc. The facility was available to assist in paying claims and the gross funding of catastrophes for Syndicate 3010. Up to $20.0 million could be utilised by way of an LOC and up to $20.0 million by way of an RCF to assist Syndicate 3010's gross funding requirements. This facility was not renewed for the 2017 year.

There are no balances outstanding under either of the Syndicates' bank facilities as at 31 December 2017 or 2016. The Syndicates' bank facilities are not available to the Group other than through its participation on the Syndicates it supports.

Trusts and restricted balances

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at and for the years ended 31 December 2017 and 2016, LICL had been granted authorised or trusteed reinsurer status in all states. The MBRT is subject to the rules and regulations of the aforementioned states and the respective deeds of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at and for the years ended 31 December 2017 and 2016, the Group was in compliance with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacities of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to Syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See page 125 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying the Syndicates' claims and expenses. See page 125 for more information regarding the capital requirements for Syndicate 2010 and Syndicate 3010.

The following cash and cash equivalents and investment balances were held in trust, other collateral accounts in favour of third parties, or are otherwise restricted:

	2017				2016			
As at 31 December	Cash and cash equivalents $m	Fixed maturity securities $m	Equity securities $m	Total $m	Cash and cash equivalents $m	Fixed maturity securities $m	Equity securities $m	Total $m
MBRT accounts	**50.7**	**132.4**	**–**	**183.1**	5.6	35.1	–	40.7
FAL	**18.4**	**132.5**	**–**	**150.9**	13.5	254.1	1.4	269.0
Syndicate accounts	**21.0**	**78.3**	**–**	**99.3**	26.8	75.9	–	102.7
In favour of LOCs	**5.4**	**35.7**	**–**	**41.1**	6.2	29.4	–	35.6
In trust accounts for policyholders	**0.8**	**24.6**	**–**	**25.4**	3.7	21.4	–	25.1
In favour of derivative contracts	**3.0**	**0.3**	**–**	**3.3**	3.8	0.3	–	4.1
Total	**99.3**	**403.8**	**–**	**503.1**	59.6	416.2	1.4	477.2

18. Share capital

Authorised common shares of $0.50 each	Number	$m
As at 31 December 2017 and 2016	3,000,000,000	1,500

Allocated, called up and fully paid	Number	$m
As at 31 December 2017 and 2016	201,341,918	100.7

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2015	1,841,526	18.1	1,302,534	12.3	3,144,060	30.4
Shares distributed	–	–	(680,033)	(6.6)	(680,033)	(6.6)
Shares donated to trust	(426,468)	(4.1)	426,468	3.5	–	(0.6)
As at 31 December 2016	1,415,058	14.0	1,048,969	9.2	2,464,027	23.2
Shares distributed	**–**	**–**	**(1,130,800)**	**(9.9)**	**(1,130,800)**	**(9.9)**
Shares donated to trust	**(1,415,058)**	**(14.0)**	**1,415,058**	**12.8**	**–**	**(1.2)**
As at 31 December 2017	**–**	**–**	**1,333,227**	**12.1**	**1,333,227**	**12.1**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2017 was 201,341,918 (31 December 2016 – 199,926,860).

Share repurchases

At the AGM held on 3 May 2017, LHL's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 20,134,191 shares, with such authority to expire on the conclusion of the 2018 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed. There were no share repurchases during either 2017 or 2016.

During the year ended 31 December 2017, 1,415,058 shares (2016 – 426,468 shares) were donated to the EBT at a market value of $12.8 million (2016 – $3.5 million).

In 2017, the trustees of the EBT distributed 1,130,800 shares (2016 – 680,033 shares). There were no unsettled balances in relation to EBT purchases at either balance sheet date.

18. Share capital continued

Dividends

The Board of Directors have 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**
Interim	**$0.05**	**11 Aug 2017**	**6 Sep 2017**	**10.0**

19. Other reserves

Other reserves consist of the following:

	Contributed surplus $m	Equity based compensation $m	Total other reserves $m
As at 31 December 2015	839.6	41.2	880.8
Shares donated to the trust	(0.6)	–	(0.6)
Distributed by trust	(9.5)	–	(9.5)
Equity based compensation – exercises	10.0	(10.0)	–
Equity based compensation – expense	–	10.9	10.9
As at 31 December 2016	839.5	42.1	881.6
Shares donated to the trust	**(1.2)**	**–**	**(1.2)**
Distributed by trust	**(13.8)**	**–**	**(13.8)**
Equity based compensation – exercises	**14.6**	**(14.6)**	**–**
Equity based compensation – expense	**–**	**(0.4)**	**(0.4)**
As at 31 December 2017	**839.1**	**27.1**	**866.2**

20. Commitments and contingencies

A. Lease commitments

The Group has payment obligations in respect of operating leases for certain items of office equipment and office space. Operating lease expenses for the year were $3.4 million (2016 – $2.3 million).

Future minimum lease payments under non-cancellable operating leases are as follows:

	2017 $m	2016 $m
Due in less than one year	**3.6**	3.0
Due between one and five years	**10.0**	10.2
Due in more than five years	**28.3**	28.1
Total	**41.9**	41.3

During 2014, the Group entered into a new lease agreement for larger office premises in the UK and assigned the leases in relation to the existing office premises in the UK to a third party who assumed responsibility for payments. Under the terms of the lease assignment the Group retains liability for lease payments in the event that the assignee and the assignee's guarantor fail to meet their obligations under the assignment agreements. The new lease agreement contains a break date of April 2029 and is guaranteed by LHL.

B. Credit facility fund

At as 31 December 2017 the Group has a commitment of $100.0 million (31 December 2016 – $50.0 million) relating to two credit facility funds (refer to note 11).

C. Legal proceedings and regulations

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

21. Earnings per share

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

	2017 $m	2016 $m
(Loss) profit for the year attributable to equity shareholders of LHL	**(71.1)**	153.8

	2017 Number of shares	2016 Number of shares
Basic weighted average number of shares	**199,723,434**	198,565,378
Dilutive effect of RSS	**1,780,368**	2,901,049
Diluted weighted average number of shares	**201,503,802**	201,466,427

(Loss) earnings per share	2017	2016
Basic	**($0.36)**	$0.77
Diluted	**($0.36)**	$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.

22. Related party disclosures

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
LICL	General insurance business	Bermuda
KCML[2]	Insurance management services	Bermuda
ORANGE FUND	Investment fund	United States
KCMMSL	Support services	United Kingdom
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LUK	General insurance business	United Kingdom
LMSCL	Support services	Canada
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998	Lloyd's corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CCSL	Support services	United Kingdom
CUL	Lloyd's managing agent	United Kingdom
Associate		
KHL	Holding company	Bermuda
Other controlled entities		
LHFT	Trust	United States
EBT	Trust	Jersey

(1) Unless otherwise stated, the Group owns 100 per cent of the ordinary share capital and voting rights in its subsidiaries listed below.
(2) 92.7 per cent owned by the Group.

22. Related party disclosures continued

The Group has issued subordinated loan notes via a trust vehicle – LHFT, refer to note 17. The Group effectively has 100.0 per cent of the voting rights in LHFT. These rights are subject to the property trustee's obligations to seek the approval of the holders of LHFT's preferred securities in case of default and other limited circumstances where the property trustee would enforce its rights. While the ability of the Group to influence the actions of LHFT is limited by the trust agreement, LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes, and is in essence controlled by the Group, and is therefore consolidated.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT and the ability of the Group to influence the actions of the EBT is limited by the trust deed, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes, and is in essence controlled by the Group, and is therefore consolidated.

The Group has a Loan Facility Agreement (the 'Facility') with RBC Cees Trustee Limited, the trustee of the EBT. The Facility is an interest free revolving credit facility under which the trustee can request advances on demand, within the terms of the Facility, up to a maximum aggregate amount of $80.0 million. The Facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2017, the Group had made advances of $6.0 million (2016 – $nil) to the EBT under the terms of the Facility.

During the year ended 31 December 2017, the Group donated 1,415,058 treasury shares (2016 – 426,468) to the EBT at the prevailing market rate. The total value of the treasury share donation was $12.8 million (2016 – $3.5 million).

LICL holds $245.3 million (31 December 2016 – $290.8 million) of cash and cash equivalents, fixed maturity securities and accrued interest in trust for the benefit of LUK relating to intra-group reinsurance agreements. In addition, LICL is required to provide 85.0 per cent of the required FAL to support the underwriting activities of Syndicate 2010 and 3010 and holds $109.2 million (31 December 2016 – $230.0 million) of cash and cash equivalents and fixed maturity securities in FAL in relation to intra-group reinsurance agreements.

The senior management team shareholding in KCML represents a minority interest of 7.3 per cent. This investment represents the non-controlling interest listed in the Group's consolidated balance sheet. During the year ended 31 December 2017 dividends of $0.6 million (31 December 2016 – $0.5 million) were paid to minority interest holders.

As at 31 December 2017 and 2016, Mr Alex Maloney, a director of LHL, had a 1.2 per cent interest in KCML. During the year ended 31 December 2017 Mr Maloney received a dividend of $0.1 million (31 December 2016 – $0.1 million) in relation to his interest in KCML.

Mr Maloney and his spouse acquired 100.0 per cent of the shares in Nameco on 7 November 2016. Nameco provides capacity to a number of Lloyd's syndicates including Syndicate 2010 which is managed by CUL. Nameco has provided $0.2 million of capacity to Syndicate 2010 for the 2018 year of account (2017 year of account – $0.2 million). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

Key management compensation

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

For the year ended 31 December	2017 $m	2016 $m
Short-term compensation	**2.9**	3.2
Equity based compensation	**0.2**	3.3
Directors' fees and expenses	**2.1**	2.2
Total	**5.2**	8.7

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 year ended 31 December 2017, the Group recognised $11.7 million (2016 – $10.6 million) of service fees and profit commissions in other income in relation to this agreement.

During 2017, the Group committed an additional $57.5 million (31 December 2016 – $25.8 million) of capital to KHL. During 2017, KHL returned $38.4 million (31 December 2016 – $28.7 million) of capital to the Group.

Refer to note 15 for further details on the Group's investment in associate.

Transactions with subsidiary of KHL

During 2017, the Group entered into a reinsurance agreement with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated balance sheet	2017 $m
Reinsurance recoveries	**22.1**

Consolidated statement of comprehensive (loss) income	2017 $m
Outwards reinsurance premiums	**3.8**
Insurance losses and loss adjustment expenses recoverable	**22.1**
Insurance acquisition expenses ceded	**0.1**

23. Subsequent events

Dividend

On 14 February 2018 the Board of Directors declared the payment of an ordinary dividend of $0.10 per common share to shareholders of record on 23 February 2018, with a settlement date of 21 March 2018. The ordinary dividend payable will be approximately $20.0 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.

Annual General Meeting

The Company's AGM is scheduled for 2 May 2018. Notice of this year's AGM and forms of proxy and direction accompany this Annual Report. If you have any queries regarding the notice or return of the proxy please contact Chris Head, Company Secretary, at Lancashire Holdings Limited, 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom, Tel: + 44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

Further information

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

Further information about the Group including this Annual Report, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. 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 and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: the actual development of losses and expenses impacting estimates for hurricanes Harvey, Irma and Maria and the earthquakes in Mexico, that occurred in the third quarter of 2017 and the wildfires which impacted parts of California during 2017, the impact of complex and unique causation and coverage issues associated with attribution of losses to wind or flood damage or other perils such as fire or business interruption relating to such events; potential uncertainties relating to reinsurance recoveries, reinstatement premiums and other factors inherent in loss estimations, the Group's ability to integrate its business 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 the Group may write; the Group's ability to successfully implement its business strategy during 'soft' as well as 'hard' markets; the premium rates which may be available at the time of such renewals within its 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 and insurance-linked funds and collateralised special purpose insurers and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its 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; cyclical downturns 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 its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its Bermudian subsidiaries becoming subject to income taxes in the United States or the Bermudian subsidiaries becoming subject to income taxes in the United Kingdom; the inapplicability to the Group of suitable exclusions from the UK CFC regime; any change in UK government policy which impacts the CFC regime or other tax changes; and the impact of 'Brexit' (following the UK's notification to the European Council under Article 50 of the Treaty on European Union on 29 March 2017) and future negotiations regarding the UK's relationship with the European Union on the Group's business, regulatory relationships, underwriting platforms or the industry generally.

Any estimates relating to loss events involve the exercise of considerable judgement and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgements in relation to loss arising from natural catastrophe and man-made events are influenced by complex factors. The Group cautions as to the preliminary nature of the information used to prepare such estimates as subsequently available information may contribute to an increase in these types of losses.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the LSE) to disseminate any updates or revisions to any forward-looking statement to reflect any changes in the Group's expectations or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

Glossary

ABS
Asset backed securities

Accident year loss ratio
The accident year loss ratio is calculated using the accident year ultimate liability revalued at the current balance sheet date, divided by net premiums earned

Active Underwriter
The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate

Additional case reserves (ACR)
Additional reserves deemed necessary by management

AFS
Available for sale

Aggregate
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

AGM
Annual General Meeting

AIM
A sub-market of the LSE

AIR
AIR Worldwide

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

Best Lancashire Assessment of Solvency over Time (BLAST)
The Group's economic internal capital model

BMA
Bermuda Monetary Authority

Board of Directors, Board
Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)
Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BREEAM
Building Research Establishment Environmental Assessment Method

BSCR
Bermuda Solvency Capital Requirement

BSX
Bermuda Stock Exchange

Cathedral; Cathedral Group
Refers to CCL and all direct and indirect subsidiaries of CCL

CCHL
Cathedral Capital Holdings Limited

CCL
Cathedral Capital Limited

CCL 1998
Cathedral Capital (1998) Limited

CCL 1999
Cathedral Capital (1999) Limited

CCSL
Cathedral Capital Services Limited

Ceded
To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

CEND
Confiscation, Expropriation, Nationalisation and Deprivation

CEO
Chief Executive Officer

CFC
Controlled Foreign Company

CFO
Chief Financial Officer

CGU
Cash generating unit

CMBS
Commercial mortgage backed securities

The Code
UK Corporate Governance Code published by the UK FRC

Combined ratio
Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned

Consolidated financial statements
Includes the independent auditors' report, consolidated primary statements, accounting policies, risk disclosures and related notes

Consolidated primary statements
Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

Coverholder at Lloyd's
A coverholder is a company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it in accordance with the terms of a binding authority

CRO
Chief Risk Officer

CSX
Cayman Islands Stock Exchange

CUL
Cathedral Underwriting Limited

CUO
Chief Underwriting Officer

D&F
Direct and facultative (re)insurance

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

DEFRA
Department for Environment, Food and Rural Affairs

Delegated authorities
Arrangements under which a Managing Agent or (re)insurer delegates its authority to another to enter into contracts of insurance on its behalf

Diluted Earnings Per Share
Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year 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 shares under the treasury stock method

Diluted Operating Earnings Per Share
Calculated by dividing the net operating (loss) income for the year attributable to shareholders by the weighted average number of common shares outstanding during the year 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 shares under the treasury stock method

Directors' fees and expenses
Unless otherwise stated includes fees and expenses of all Directors across the Group

Dividend yield
Calculated by dividing the annual dividends per share by the share price on the last day of the given year

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 year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT
Lancashire Holdings Employee Benefit Trust

ECA
Economic Capital Assessment

EEA
European Economic Area

ERM
Enterprise Risk Management

EURIBOR
The Euro Interbank Offered Rate

Excess of loss
Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

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

EY
Ernst & Young LLP

Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FAL
Funds at Lloyd's

FCA
Financial Conduct Authority

FPSO
Floating production storage and offloading

FRC
Financial Reporting Council

FSMA
The Financial Services and Markets Act 2000 (as amended from time to time)

FTE
Full-Time Employee

Fully converted book value per share (FCBVS)
Calculated by dividing the value of the total shareholders' equity plus the proceeds that would be received from the exercise of all dilutive equity compensation awards, by the sum of all shares, including equity compensation awards assuming all are exercised

FVTPL
Fair value through profit or loss

G10
Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States

GHG
Greenhouse Gas

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 or the Lancashire Group
LHL and its subsidiaries

ICM
International Care Ministries

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standard(s)

ILS
Insurance Linked Securities

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

Industry loss warranty (ILW)
A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

Internal Audit Charter
Is a formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors / regulatory bodies of the internal audit function ("internal audit") with the Company and its subsidiaries

International Accounting Standard(s) (IAS)
Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)
An international panel of accounting experts responsible for developing IAS and IFRS

IRR
Internal rate of return

IRRC
Investment Risk and Return Committee

ISA
International Standards on Auditing (UK and Ireland)

ISE
Irish Stock Exchange

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

KPMG
KPMG LLP, a UK limited liability partnership

KRL (Kinesis Re)
Kinesis Reinsurance I Limited

Lancashire companies
Refers to the Group excluding Cathedral and Kinesis

Lancashire Foundation or Foundation
The Lancashire Foundation is a charity registered in England and Wales

LHFT
Lancashire Holdings Financing Trust I Limited

LHL (The Company)
Lancashire Holdings Limited

LIBOR
London Interbank Offered Rate

LICL
Lancashire Insurance Company Limited

LIHL
Lancashire Insurance Holdings (UK) Limited

LIMSL
Lancashire Insurance Marketing Services Limited

LISL
Lancashire Insurance Services Limited

Listing Rules
The listing rules made by the FCA under part VI of FSMA (as amended from time to time)

Lloyd's
The Society of Lloyd's

LMSCL
Lancashire Management Services (Canada) Limited

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

MBRT
Multi-beneficiary reinsurance trust

MBS
Mortgage backed securities

Moody's investors services (Moody's)
Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

MSF
Médecins Sans Frontières

Names
An individual member underwriting with unlimited liability. Since 6 March 2003 no person has been admitted as a new member to underwrite on an unlimited basis

Nameco
Nameco (No. 801) Ltd

NAV
Net asset value

NBS
New Bridge Street (a trading name of Aon Hewitt Limited)

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 (loss)/ profit
(Loss)/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 an adjusted net operating profit available helps the understanding of results by highlighting the underlying profitability of the Group's core insurance and reinsurance business

Net premiums written
Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

Orange Fund
A Series of Payden Active Cash Management, LLC

ORSA
Own Risk and Solvency Assessment

OTC
Over the counter

PML
Probable maximum loss. The Group's exposure to certain peak zone elemental losses

PRA
Prudential Regulation Authority

Pro-rata/proportional
Reinsurance or insurance where the reinsurer or insurer shares a proportional part of the original premiums and losses of the reinsured or insured

RCF
Revolving credit facility

RDS
Realistic Disaster Scenarios

Retrocession
The reinsurance of a reinsurance account

Return on Equity (RoE)
The IRR of the change in FCBVS in the period plus accrued dividends

Risk Free Rate of Return (RFRoR)
Being the 13 week U.S. Treasury bill rate, unless otherwise stated

RMBS
Residential mortgage backed securities

RMS
Risk Management Solutions

RPI
Renewal Price Index

RRC
Risk and Return Committee

RSC
Reinsurance Security Committee

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

SATEC
SATEC Underwriting, a privately owned insurance underwriting agency operating at national and international level in specialty classes of business. SATEC Underwriting is a coverholder at Lloyd's

SCR
Solvency Capital Requirement

SHARP
Lancashire's in house aggregation system

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

The syndicates
Syndicate 2010 and 3010

TOBA
Terms of business agreements

Total Investment Return
Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group's managed investment portfolio

Total Shareholder Return (TSR)
The IRR of the increase/(decrease) in share price in the period, measured in U.S. dollars, adjusted for dividends

Treaty reinsurance
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

UK
United Kingdom

UMCC
Underwriting and Marketing Conference Call

Unearned premiums
The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

UNL
Ultimate net loss

USCR
Ultimate solvency capital requirement

U.S.
United States of America

U.S. GAAP
Accounting principles generally accepted in the United States

Value at Risk (VaR)
A measure of the risk of loss of a specific portfolio of financial assets

Contact information

Head office
Lancashire Holdings Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

Registered office
Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

Bermuda office
Lancashire Insurance Company Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

UK office
Lancashire Insurance Company
(UK) Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

Cathedral
Cathedral Capital Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7170 9000
Fax: + 44 (0) 20 7170 9001

Kinesis
Kinesis Capital Management Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

Legal counsel to the Company
As to English and U.S. law:
Willkie Farr & Gallagher (UK) LLP
City Point
1 Ropemaker Street
London EC2Y 9AW
United Kingdom

As to Bermuda law:
Conyers Dill & Pearman Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Auditors
KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Registrar
Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT
Channel Islands

Depositary
Link Market Services Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom