Responsive governance

Peter Clarke
Non-Executive Chairman

Responsive governance requires clear communication, constructive challenge and debate and creative strategic thinking. A diverse range of perspectives and experience helps build a responsive culture, which serves and balances the expectations of a broad range of stakeholders.

In my opening statement I discussed the way in which our business and Board responded to the strategic challenges of 2017 as the year progressed. The following section focuses on the work carried out by the Board and its Committees in exercising effective oversight, taking decisions and providing responsive challenge and support to the business.

How does the Board structure and monitor the governance objectives for the business?

As a premium-listed company on the LSE, Lancashire measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis.

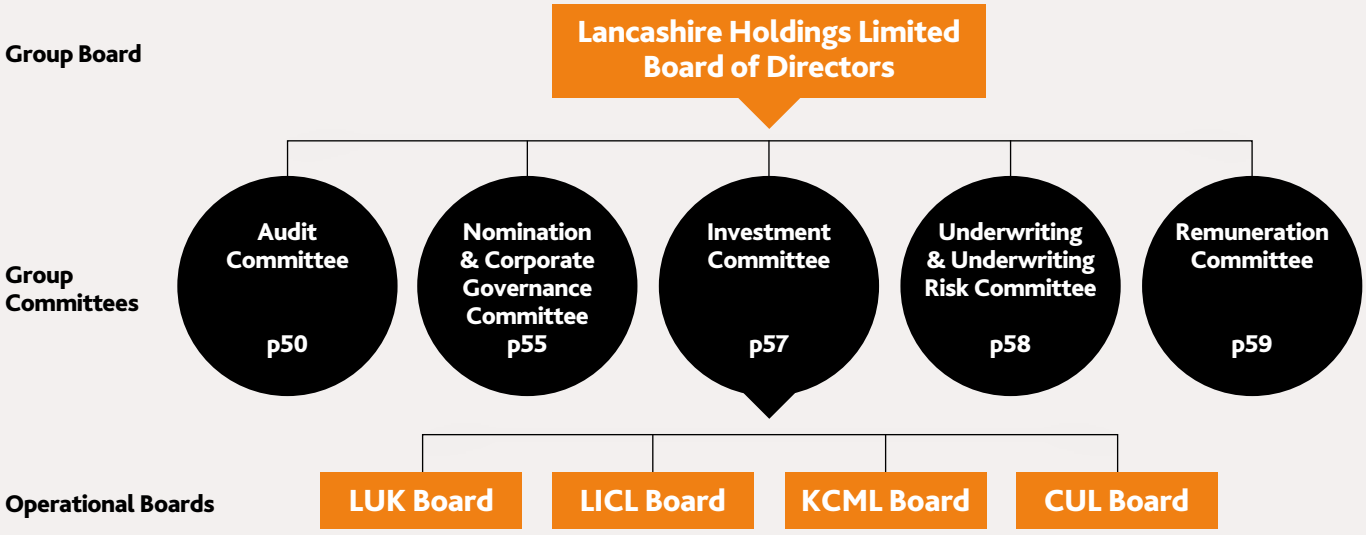
In this corporate governance section and throughout the Annual Report and Accounts for the 2017 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under both Bermuda law and regulations and, as an insurance operation subject to UK group supervision by the PRA, in accordance with the requirements of the UK's Solvency II regime.

I am pleased to be able to report that the Board considers that the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2017. The Board and business seek to ensure that the formal consideration of governance and regulatory requirements does not become a sterile exercise but is used to best advantage as a framework to inform the strategic and commercial matters which are so central to the nimble and responsive operation of the Group.

How does the Board have regard to the interests of Lancashire's stakeholders in promoting the success of the business?

Over the last year or so the governance debate within the UK has concentrated strongly on the requirement for boards to focus on a broad group of stakeholders. Our Board has for many years taken what might be described as a holistic view to the operation of its business. Our strategic focus upon excellence in underwriting encompasses the importance which we attach to two of our most important stakeholder groups: our policyholders and our staff. It is paramount that the (re)insurance products we offer meet the needs of our clients and their

Our governance structure



brokers and that Lancashire is viewed as a trusted partner and provider of solutions. Similarly, we spend time as a Board carefully considering the staff resources across the Group and in particular the succession planning for Board and senior roles. Given our relatively small headcount each of our Directors has regular opportunities to meet employees at all levels across the business. In particular, we meet frequently with senior employees in both London and Bermuda as part of our quarterly activities.

All of our staff have the opportunity to meet our Directors both at the AGM and at semi-formal lunches for employees and Directors held periodically in both London and Bermuda.

I am personally involved in the programme of dialogue which Alex and our management team conducts with our regulators, in particular the PRA, Lloyd's and the BMA, and those conversations are routinely reported back to our full Board. The business also prides itself on its engagement with the communities in which it operates, both through staff outreach programmes and through the operation of the Lancashire Foundation, which reports to the Board on its activities. Please see pages 36 to 41 of this Annual Report and Accounts for further details.

We also pride ourselves on engaging regularly with our shareholder community, not only through the regular programme of meetings organised by our management team, but also through periodic initiatives to consult with our shareholders. In particular, Simon Fraser led a consultation with our principal shareholders on the remuneration policy and implementation issues in advance of the 2017 AGM. As a Board we also meet regularly with our corporate brokers to seek their feedback on investor priorities as well as Lancashire's performance and perception amongst investors within the broader insurance sector.

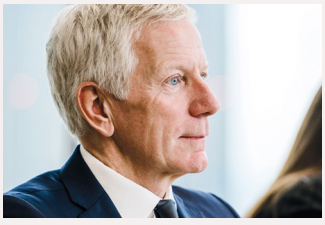
Are the Board and its Committees operating effectively?

During 2017 our Board once again carried out a review of its effectiveness which I led, facilitated by our Company Secretary (see page 48 for further details). A summary report was discussed by the full Board and we concluded that the Board, its members and each of its Committees have a balance of experience and talents that serves the Group well and have the culture and competencies necessary to meet the strategic challenges of the business effectively as we enter 2018. I have made it my practice to meet regularly with the chairs of each of our principal subsidiary boards and our review concluded that the relationship between the main Lancashire Board and the subsidiary boards continues to operate effectively.

We have also gained useful insights and identified various areas for enhancements to the ways we operate and considered areas for training and learning during the coming year. I would like to thank all of our Directors, our management team and all employees for their hard work during the year.

Peter Clarke
Non-Executive Chairman

A balanced Board



Peter Clarke
Non-Executive Chairman

Peter Clarke was Group Chief Executive of Man Group plc between April 2007 and February 2013. In 1993 Mr Clarke joined Man Group plc, a leading global provider of alternative investment products and solutions as well as one of the world's largest futures brokers. He was appointed to the board in 1997 and served in a variety of roles, including Head of Corporate Finance and Corporate Affairs and Group Company Secretary, before becoming the Group Finance Director in 2000. During this period he was responsible for investing in and developing one of the leading providers of third party capital insurance and reinsurance products. In November 2005, he was given the additional title of Group Deputy CEO. Mr Clarke is currently the Chairman of City Year and a Non-Executive Director of AXA Investment Managers S.A., RWC Partners Limited and Lombard Odier Asset Management. He is a member of the Treasury Committee of King's College London. Mr Clarke previously served as the Chairman of the National Teaching Awards Trust. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

Alex Maloney
Chief Executive Officer

Alex Maloney joined Lancashire in December 2005 and was appointed Group Chief Executive Officer in April 2014. On joining, Mr Maloney was responsible for establishing and building the energy underwriting team and account and, in May 2009, was appointed Group Chief Underwriting Officer. Since November 2010 Mr Maloney has served as a member of the Board and was appointed Chief Executive Officer of Lancashire Insurance Company (UK) Limited in 2012. Mr Maloney also serves as a Director of Cathedral Underwriting Limited and has been closely involved in the development of the Group's Lloyd's strategy. Mr Maloney has over 20 years' underwriting experience and has also worked in the New York and Bermuda markets.

Elaine Whelan
Chief Financial Officer

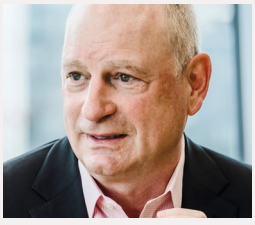
Elaine Whelan joined Lancashire in March 2006 and leads both the Group finance function and the Bermuda subsidiary, reporting to the Group Chief Executive Officer. Ms Whelan was previously Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. Prior to joining Zurich, Ms Whelan was an Audit Manager at PricewaterhouseCoopers, Bermuda, where she managed a portfolio of predominantly (re)insurance and captive insurance clients. Ms Whelan graduated from the University of Strathclyde in 1994 with a BA in Accounting and Economics and gained her Chartered Accountancy qualification from the Institute of Chartered Accountants of Scotland in 1997.

Michael Dawson
Non-Executive Director

Michael Dawson has more than 35 years' experience in the insurance industry, having started his career at Lloyd's in 1979. He joined Cox Insurance in 1986 where he was the Chief Executive from 1995 to 2002. In 1991, Mr Dawson formed and became the underwriter of Cox's and subsequently Chaucer's specialist nuclear syndicate 1176. Between 2005 and 2008 Mr Dawson was appointed Chief Executive of Goshawk Insurance Holdings PLC and its subsidiary Rosemont Re, a Bermuda reinsurer. Mr Dawson served on the Council of Lloyd's from 1998 to 2001 and on the Lloyd's Market Board from 1998 to 2002. He is a Non-Executive Director of Pool Re (Nuclear) Limited and Deputy Chairman of the management committee of Nuclear Risk Insurers Limited.

Simon Fraser
Senior Independent Non-Executive Director
Simon Fraser was Head of Corporate Broking at Merrill Lynch and subsequently Bank of America Merrill Lynch until his retirement in 2011. He began his career in the City in 1986 with BZW and joined Merrill Lynch in 1997. He led initial public offerings, rights issues, placings, demergers and mergers and acquisitions transactions during his career and advised many UK companies on stock market and LSE issues. Mr Fraser has an MA degree in modern history from the University of St Andrews. He is also a Non-Executive Director of Legal and General Investment Management (Holdings) Limited and Senior Independent Director of Derwent London plc, where he sits on the Remuneration, Audit and Nominations Committees. Mr Fraser also serves as a Non-Executive Director of Cathedral Underwriting Limited.

Samantha Hoe-Richardson
Non-Executive Director
Samantha Hoe-Richardson since 2014 has been Chairman of the Audit Committee. She is also a Non-Executive Director of Unum Ltd and Unum European Holding Company Ltd. Unum is one of the UK's leading employee benefits providers through the workplace. She also chairs their Audit Committees. Prior to this, she was Head of Environment & Sustainability for Network Rail and formerly Head of Environment for Anglo American plc, one of the world's leading mining and natural resources companies. She was also a director and founder of Anglo American Zimele Green Fund (Pty) Ltd, which supports entrepreneurs in South Africa. Prior to her role with Anglo American, Ms Hoe-Richardson worked in investment banking and audit and she holds a masters degree in nuclear and electrical engineering from the University of Cambridge. She also has a Chartered Accountancy qualification. Ms Hoe-Richardson is also a Non-Executive Director of LUK.



Robert Lusardi
Non-Executive Director
Robert Lusardi is currently a private investor and has spent his career as a senior executive in the financial services industry. From 1980 until 1998 he was an investment banker with Lehman Brothers, ultimately as Managing Director in charge of the insurance and asset management practices. From 1998 until 2005 he was a member of the Executive Management Board of XL Group plc, first as Group CFO then as CEO of one of their three operating/reporting segments; from 2005 until 2010 he was an EVP of White Mountains (an insurance merchant bank) and CEO of certain subsidiaries; and from 2010 to 2015 he was CEO of PremieRe Holdings LLC (a private insurance entity). He has been a director of a number of insurance-related entities including Symetra Financial Corporation, Primus Guaranty Ltd., OneBeacon Insurance Group Ltd., Esurance Inc., Delos Inc. and FSA International Ltd. He is also on the board of Oxford University's 501(c)3 charitable organisation. He received his BA and MA degrees in Engineering and Economics from Oxford University and his MBA from Harvard University.

Tom Milligan
Non-Executive Director
Tom Milligan was Co-Chief Executive Officer of Ariel Re Holdings Ltd., until his retirement in 2015. He began his career in the City in 1991 with Guy Carpenter & Co. In 2005, Mr Milligan joined Goldman Sachs Group Inc. to start the GS Reinsurance Group's non-life activities. Mr Milligan served as Chief Underwriting Officer of Arrow Capital Re and started Goldman Sachs-owned Lloyd's Syndicate 1910 in 2008, serving as Active Underwriter until 2012. In 2012, Mr Milligan led Goldman Sachs' purchase of Ariel Re and served as Co-CEO from April 2012 until July 2014. During 2013, Mr Milligan played a leading role in the spin-off of GS Reinsurance Group into Global Atlantic Financial Group ('GAFG'), before managing the sale of the Ariel businesses from GAFG to BTG Pactual in 2014. He is also a Non-Executive Director of Managing Agency Partners Limited and Non-Executive Chairman of Beat Capital Partners Ltd. Mr Milligan graduated from Durham University in 1991.

Christopher Head
Company Secretary
Christopher Head joined Lancashire in September 2010. He was appointed Company Secretary of Lancashire Holdings Limited in 2012 and advises on issues of corporate governance and generally on legal affairs for the Group. He also advises on the structuring of Lancashire's third party capital underwriting initiatives which have included the Accordion and Kinesis facilities. Prior to joining Lancashire, he was in-house Counsel with the Imagine Insurance Group, advising specifically on the structuring of reinsurance transactions. He transferred to Max at Lloyd's in 2008 as Lloyd's and London Counsel. Between 1998 and 2006, Mr Head was Legal Counsel at KWELM Management Services Limited, where he managed an intensive programme of reinsurance arbitration and litigation for insolvent members of the HS Weavers underwriting pool. Mr Head is a UK solicitor having worked until 1998 at Barlow Lyde and Gilbert in the Reinsurance and International Risk Team. Mr Head has a history MA and legal qualification from Cambridge University.

Highlights of the Board's year

February/Q1 meeting

- The Board approved the appointment of Andrew McKee as a Director and CEO of CUL, subject to Lloyd's and relevant regulatory approvals. The Board also approved the appointment of Nicholas Davenport as Chairman of the Board of Directors of CUL;
- Following its quarterly review of capital management, the Board declared a final ordinary dividend of $0.10 per common share in respect of the year ended 31 December 2016;
- The Board approved the Group's 2017 business plan that had been updated in light of the 1 January 2017 renewals and market conditions;
- The Board approved updated UK and U.S. regulatory and tax operating guidelines for the Group;
- The Board approved the core objectives of the Lancashire Foundation for adoption by the Trustees of the Foundation;
- The Board approved the Group's 2017 framework for executive remuneration;
- The Board approved the Directors' Remuneration Policy and the Annual Report on Remuneration, as set out in the Directors' Remuneration Report for the year ended 31 December 2016, for presentation to shareholders for approval at the 2017 AGM;
- The Board approved the LHL 2017 RSS rules for presentation to shareholders for approval at the 2017 AGM; and
- The Board approved the Annual Report and Accounts 2016.

March/Solvency II training

- Solvency II training was provided to the Non-Executive Directors as part of the structured programme delivered between 2015 and 2017.

May/Q2 meeting

- The Board approved the Group's UK tax strategy for the year ended 31 December 2017;
- The Board approved the Solvency II submissions as at 31 December 2016 for submission to the PRA;
- The Board approved the appointment of Robert Lusardi as Chairman of the Investment Committee;
- The Board received a presentation from the Group's corporate brokers; and
- The Company's 2017 AGM was held at its Head Office on 3 May 2017. All resolutions were duly passed and approved by shareholders.

June/Board strategy session

The objective of the 2017 strategy session was to consider the key decisions to be made in the preparation of the Group's three-year strategic plan. The agenda included:

- review of the current strategy; consideration of its continued relevance and the views of shareholders;
- review of the Group's underwriting lines of business and potential opportunities;
- presentations on the London and international specialty and reinsurance markets and alternative capital in the reinsurance market;
- consideration of soft market challenges and potential hard market issues;
- review of the business's resourcing and training needs; and
- discussion of the strategic themes and options for the business.

July/Q3 meeting

- The Board approved the Group's three-year strategic plan, including the Group's risk appetite and capital and solvency appetite;
- The Board approved the Group's 2017 reforecast business plan in light of actual experience to 30 June 2017 and market conditions and expectations following the 1 July 2017 renewals;
- The Board declared an interim dividend of $0.05 per common share;
- The Board approved the Group's updated ERM strategic objectives and plan;
- The Board approved amended and restated Terms of Reference of the Audit Committee;
- The Board approved an updated division of responsibilities between the Chairman and the CEO together with an amended Schedule of Board Reserved Matters, which is published on the Group's website; and
- The Board received a presentation on the fixed maturity market from one of the Group's investment managers.

October/Q3 loss events

- The Board approved the publication of a press release in respect of the Group's preliminary loss estimates from hurricanes Harvey, Irma and Maria and the Mexican earthquakes.

November/Q4 meeting

- The Board approved the Group's 2018 business plan;
- The Board discussed its policy on diversity;
- The Board approved a Group Solvency II Identified Staff Remuneration policy; and
- The annual performance evaluation of the Board and its Committees and individual Directors was commissioned, to be facilitated by the Company Secretary.

Board Committees

Board and Committee administration
The Board of Directors is responsible for the leadership and control and the long-term success of Lancashire's business. The Board has reserved a number of matters for its decision, including responsibility for setting the Group's values and standards, and approval of the Group's strategic aims and objectives. The Board has delegated certain matters to Committees of the Board, as described below. Copies of the Schedule of Board-Reserved Matters and Terms of Reference of the Board Committees are available on the Company's website at www.lancashiregroup.com.

The Board has approved and adopted a formal division of responsibilities between the Chairman and the CEO. The Chairman is responsible for the leadership and management of the Board and for providing appropriate support and advice to the CEO. The CEO is responsible for the management of the Group's business and for the development of the Group's strategy and commercial objectives. The CEO is responsible, along with the executive team, for implementing the Board's decisions.

The Board and its Committees meet on at least a quarterly basis. At the regular quarterly Board meetings, the Directors review all areas of the Group's business and receive reports from management on underwriting, reserving, finance, investments, capital management, internal audit, risk, legal and regulatory developments, compliance and other matters affecting the Group. Management provides the Board with the information necessary for it to fulfil its responsibilities. In addition, presentations are made by external advisers such as the independent actuary, the investment managers, the external auditors, the remuneration consultants and the corporate brokers. The Board Committees are authorised to seek independent professional advice at the Company's expense.

The Board also meets to discuss strategic planning matters outside the formal meeting schedule. A Board strategic planning session was held in June 2017.

The Chairman holds regular meetings with the Non-Executive Directors, without the Executive Directors present, to discuss a broad range of matters affecting the Group.

The Directors
Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board considers all of the Non-Executive Directors to be independent within the meaning of the Code.

Michael Dawson, Simon Fraser, Samantha Hoe-Richardson, Robert Lusardi and Tom Milligan are independent, as each is independent in character and judgement and has no relationship or circumstance likely to affect his or her independence. Peter Clarke was independent upon his appointment as Chairman on 4 May 2016. At the Board meeting held on 14 February 2018, further to a recommendation by the Nomination and Corporate Governance Committee, the Board affirmed its judgement that five of the eight members of the Board are independent Non-Executive Directors. Therefore, in the Board's judgement, the Board composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

In accordance with the provisions of the Company's Bye-laws and the Code, all the Directors are subject to re-election annually at each AGM.

Information and training

On appointment, the Directors receive written information regarding their responsibilities as Directors and information about the Group. An induction process is tailored for each new Director in the light of his or her existing skill set and knowledge of the Group, and includes meeting with senior management and visiting the Group's operations. Information and advice regarding the Company's official listing, legal and regulatory obligations and on the Group's compliance with the requirements of the Code is also provided on a regular basis. An analysis of the Group's compliance with the Code is collated and summarised in quarterly reports together with a more general summary of corporate governance developments, which are prepared by the Group's legal and compliance department for consideration by the Nomination and Corporate Governance Committee. The Directors have access to the Company Secretary who is responsible for advising the Board on all legal and governance matters. The Directors also have access to the Group General Counsel and independent professional advice as required. Regular sessions are held between the Board and management as part of the Company's quarterly Board meetings, during which in-depth presentations covering areas of the Group's business are made. During these presentations the Directors have the opportunity to consider, challenge and help shape the Group's commercial strategy.

Board performance evaluation

A formal performance evaluation of the Board, its Committees and individual Directors is undertaken on an annual basis and the process is initiated by the Nomination and Corporate Governance Committee. The aim of this work is to assess the effectiveness of the Board and its Committees in terms of performance and risk oversight, strategic development, composition, supporting processes and management of the Group. The evaluation is forward-looking in terms of identifying the strategic priorities as well as considering performance, training and development needs for the Directors within the context of the work of each Committee and that of the Board. The 2015 and 2016 performance evaluations were facilitated by Lintstock Limited, a London-based corporate advisory firm with no other connection to the Group, whilst the 2017 evaluation was conducted internally and facilitated by the Company Secretary and the Chairman.

The 2017 evaluation process involved each Director as well as the Company Secretary, the Group CRO, Group General Counsel and other members of senior management completing a questionnaire designed by the LHL Chairman and the Company Secretary with input from the Chairs of each of the relevant Committees. Responses to the completed questionnaires were collated by the Company Secretary, who prepared a suite of summary reports that were discussed in draft with the Board Chairman and Committee Chairs before being distributed to each of the Directors.

In February 2018, the performance evaluation reports were discussed at meetings of the Nomination and Corporate Governance Committee and the Board, and each of the other Committees discussed the report pertinent to its own operation and performance. The Board discussions were led by the Chairman and focused on such matters as strategic oversight, succession planning, Board composition and training and priorities for 2018.

In summary, in the Board's consideration of the 2017 evaluation reports, the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be excellent. The CEO and the CFO, the Company's Executive Directors, were also found to be operating effectively.

Appropriate infrastructure, processes and governance mechanisms are in place to support the effective performance of the Board and its Committees. The Board is considered to manage risk effectively. The number of Directors on the Board is considered to be appropriate.

It was noted in the evaluation process that, in what had been a year involving significant material losses, the Board and Committee oversight of underwriting strategy and risk tolerances had operated effectively and within expectations. Engagement between the Board and the wider body of staff is considered to be generally strong and beneficial to the operation of the business. Looking ahead, the Board and Committees will, during the course of 2018, seek to ensure that the Group holds sufficient capital and utilises capital tools to ensure that the business is well-placed to be a leading (re)insurance market participant in what may become a more dynamic underwriting environment than has been the case in recent years. In this regard the Board expects to monitor any changes to the rating agency and regulatory capital models. The Board also highlighted a number of themes which will inform the business of the Board during 2018 including the attributes required in future non-executive appointments, the benefits of a broad diversity on our Board and in our business and the ongoing need to ensure a strong succession plan to meet the requirements of the business. A number of practical steps to optimise the focus of Board and Committee meetings were also identified for action.

The Board will continue to review its procedures, training requirements, effectiveness and development during 2018.

The Chairman's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during November 2017. The discussion and feedback was positive regarding all aspects of the Chairman's performance. Particular reference was made to the strong lines of communication which have been fostered with the Chairs of the subsidiary boards and his support of the senior executives. It was noted that the Chairman also attends (at the invitation of the relevant Committee Chairman) meetings of those Committees of which he is not an appointed member, thus tracking the detail of Committees' decision-making, as well as providing strategic and high-level leadership to the Board.

Following the year end, the Chairman met with the CEO, and the CEO met with the CFO, to conduct a performance appraisal in respect of 2017 and to set targets for 2018. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 60.

	Original date of appointment to the Board	Board	Audit Committee	Investment Committee	Nomination and Corporate Governance Committee	Underwriting and Underwriting Risk Committee	Remuneration Committee
Non-Executive Directors							
Peter Clarke	9 June 2014	4/4	–	4/4	4/4	–	4/4
Michael Dawson	3 November 2016	4/4	–	–	4/4	4/4	4/4
Simon Fraser	5 November 2013	4/4	4/4	–	–	–	4/4
Samantha Hoe-Richardson	20 February 2013	4/4	4/4	–	4/4	–	–
Robert Lusardi	8 July 2016	4/4	3/4[1]	4/4	–	–	4/4
Tom Milligan	3 February 2015	4/4	–	4/4	4/4	4/4	–
Executive Directors							
Alex Maloney	5 November 2010	4/4	–	–	–	4/4	–
Elaine Whelan	1 January 2013	4/4	–	4/4	–	–	–

(1) Robert Lusardi is resident in the U.S. Due to unforeseen circumstances, he was unable to attend the meeting of the Audit Committee held in London on 21 July 2017. He was able to follow proceedings for information purposes via telephone conference. However, pursuant to the Group's strict tax and regulatory operating guidelines, he did not participate in the meeting.

Relations with shareholders

During 2017, the Group's Head of Investor Relations, usually accompanied by one or more of the Group CEO, the Group CUO, the Group CFO, the Chairman or a senior member of the underwriting team, made presentations to major shareholders, analysts and the investor community. Formal reports of these meetings were provided to the Board on at least a quarterly basis. The Chairman of the Remuneration Committee conducted a consultation with the significant shareholders of the Group with regard to remuneration policy and practice in advance of the 2017 AGM.

Conference calls with shareholders and analysts hosted by senior management are held quarterly following the announcement of the Group's quarterly financial results. The Group CEO, Group CUO and Group CFO are generally available to answer questions at these presentations.

Shareholders are invited to request meetings with the Chairman, the Senior Independent Director and/or the other Non-Executive Directors by contacting the Head of Investor Relations. All of the Directors are expected to be available to meet with shareholders at the Company's 2018 AGM.

The Company commissions regular independent shareholder analysis reports together with independent research on feedback from shareholders and analysts following the Company's results announcements. This research, together with the analysts' notes, is made available to all Directors.

Enterprise Risk Management

The Board is responsible for setting the Group's risk appetites, defining its risk tolerances, and setting and monitoring the Company's risk management and internal control systems including compliance with risk tolerances. During 2017 the Board carried out a robust assessment of the principal risks affecting the Group's business model, future performance, solvency and liquidity and the operation of internal control systems.

Further discussion of the risks affecting the Group and the policies in place to manage them can be found in the ERM section of this report on pages 31 to 35 and in the risk disclosures section on pages 100 to 125.

Each of the Committees is responsible for various elements of risk (see the various Committee reports from page 50 to page 59 for further detail). The Group CRO reports directly to the Group and subsidiary Boards and facilitates and aids the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The Group CRO provides regular reports to the Group and subsidiary boards covering, amongst other things, actual risk levels against tolerances, emerging risks, any lessons learned from risk events and assurance provided over key risks. During 2017, the Directors participated in a number of training sessions addressing the Board's obligations under Solvency II and, in particular, with regard to the review and approval of the Solvency II submissions as at 31 December 2016 for submission to the PRA. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices are a major responsibility assigned to the Group CRO. The Group CRO's remuneration is subject to annual review by the Remuneration Committee. The Board is satisfied that the Company's risk management and internal control systems have operated effectively for the year under review.

Committees

The Board has established Audit, Investment, Nomination and Corporate Governance, Underwriting and Underwriting Risk and Remuneration Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website. The Committees' Terms of Reference were reviewed by the Board during 2017 and were considered to be in line with current best practice. The Committees are generally scheduled to meet quarterly, although additional meetings and information updates are arranged as business requirements dictate. Director attendance of the 2017 Board and Committee meetings is set out in the table appearing above. A report from each of the Committees is set out from page 50 to page 59.

Audit Committee

Samantha Hoe-Richardson
Chairman of the Audit Committee

During 2017 the focus of the Committee has been on the adequacy of the Group's loss reserves, as well as the transition of external auditors and the continued integrity of external financial reporting.

Committee membership

The Audit Committee comprises three independent Non-Executive Directors and is chaired by Samantha Hoe-Richardson, a qualified accountant. The Board considers that the three independent Non-Executive Directors all have recent and relevant financial experience. The Audit Committee as a whole has competence in the specialty insurance and reinsurance sectors. The internal and external auditors have the right of direct access to the Audit Committee. The Audit Committee's detailed Terms of Reference are available on the Company's website.

	Meetings attended
Samantha Hoe-Richardson (Chairman)	4/4
Simon Fraser	4/4
Robert Lusardi[1]	3/4

(1) Robert Lusardi is resident in the U.S. Due to unforeseen circumstances, he was unable to attend the meeting of the Audit Committee held in London on 21 July 2017. He was able to follow proceedings for information purposes via telephone conference. However, pursuant to the Group's strict tax and regulatory operating guidelines, he did not participate in the meeting.

Principal responsibilities of the Committee

- Financial reporting: monitors the integrity of the consolidated financial statements of the Group and any other formal statements relating to its financial performance, including the annual Solvency II Group reporting requirements. Reviews and reports to the Board on significant financial reporting issues and judgements that those statements contain. Reviews the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable;
- External audit: oversees the relationship with the external auditors and is responsible for the annual assessment of their independence and objectivity. Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, for the appointment of the Company's external auditors;
- Internal audit: monitors and reviews the effectiveness of the Group's internal audit function ensuring it has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and in accordance with appropriate professional standards; and
- Internal controls and risk management systems: oversight of internal controls and risk management systems. Reviews the Group's 'whistleblowing' and other systems and controls for the prevention of fraud, bribery and money laundering.

How the Committee discharged its responsibilities during 2017

FINANCIAL REPORTING

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors the integrity of the Group's consolidated financial statements, including its annual and half-yearly reports, annual Solvency II Group Pillar 3 reports, interim management statements and any other formal statements relating to the Group's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the consolidated financial statements.	At each quarterly meeting the Committee reviews the Group's quarterly consolidated financial statements for the purposes of recommending their approval by the Board. The Group's annual Solvency II Pillar 3 reports were reviewed at the first quarter Audit Committee meeting prior to recommendation of their approval at the May Board meeting. The Committee also monitors the activities of the Company's Disclosure Committee and reviews the Group's quarterly financial press releases, which it recommends to the Board for approval. The Committee receives quarterly reports from management on: • developments in accounting and financial reporting requirements; • any new and/or significant accounting treatments/transactions in the quarter; • the activities of LHL's subsidiary companies, including consideration of any risk issues; and • loss reserving (see page 140 for further details). An annual paper is presented by management to the Committee that details the areas of significant judgement and estimation in the preparation of the consolidated financial statements. (See accounting policies (page 94) for the details of these areas.) The Committee also receives quarterly reports on the consolidated financial statements from the external auditors, including an interim review report and a year-end full audit report. These are discussed with the external auditors at the Committee's meetings. With respect to the areas of judgement and estimation in the preparation of the consolidated financial statements, those that were considered by the Committee to be significant during 2017 were the estimation of ultimate loss reserves and the valuation of intangible assets. These are explained in detail on page 54. KPMG considered the valuation of intangible assets to be an elevated audit risk but not a significant audit risk. This was based on various factors, including the historic levels of headroom in the impairment testing and sensitivity analysis performed. In accordance with auditing guidance, KPMG's year-end audit report identified revenue recognition through the estimation of premium revenues as an area of significant risk. The Audit Committee considered this and concluded that, whilst some premiums are subject to estimation, revenues are unlikely to be materially different from initial estimates, particularly on a consolidated Group basis.
Reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	The Chairman of the Committee reviewed the early drafts of the 2017 Annual Report and Accounts in order to keep appraised of its key themes and messages. The Committee reviewed the final draft of the Annual Report and Accounts at the February 2018 Audit Committee meeting together with the external auditors' report. The Committee advised the Board that, in its view, 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.

EXTERNAL AUDIT

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Oversees the relationship with the Group's external auditors, approves their remuneration and terms of engagement, and assesses annually their independence and objectivity taking into account relevant legal, regulatory and professional requirements and the Group's relationship with the external auditors as a whole. This includes an annual assessment of the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process.	The Committee approves the annual external audit plan and receives reports from the external auditors at each quarterly Committee meeting, including an ongoing assessment of the effective performance of the audit compared to the plan. The Committee Chairman conducts informal meetings with the external auditors and the CFO prior to, during, and after the review of the quarterly results. The Committee meets quarterly in executive session with the external auditors to discuss any issues arising from the audit, and with management to obtain feedback on the audit process. The Committee conducted an assessment of the qualifications, expertise and resources, and independence of KPMG prior to recommending its appointment as external auditor in 2017. A further review was conducted in February 2018 and the Committee concluded that the external auditors are independent and objective. Due to the appointment of KPMG as new external auditors in 2017, the formal assessment of the effectiveness of the external audit process was minimal and focused on the effectiveness of the facilitation of the external audit process by Lancashire's staff. It is proposed to undertake a thorough review of KPMG's effectiveness through their first year of providing external audit services for the financial year ending 31 December 2017 during the first quarter of 2018.
The development and implementation of a formal policy on the provision of non-audit services by the external auditors, taking into consideration any threats to the independence and objectivity of the external auditors.	The Committee has approved and adopted a formal non-audit services policy that is reviewed on an annual basis and was last updated in October 2017. The policy, which stipulates the approvals required for various types of non-audit services that may be provided by the external auditors, is on the Group's website. 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 $20,000. The Committee gave careful consideration to the nature of the non-audit services provided and the level of fees charged, and has determined that they do not affect the independence and objectivity of KPMG as auditors.
Makes a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Group's external auditors	It was disclosed in the 2016 Annual Report and Accounts that, following a competitive external audit tender process undertaken during the year, it was proposed to recommend the appointment of KPMG as external auditors by shareholders at the 2017 AGM. The recommendation was approved by shareholders and KPMG were appointed as external auditors with effect from the conclusion of the 2017 AGM. The lead audit partner is Rees Aronson. The Committee worked with KPMG during 2017 to achieve a smooth transition of external auditors and recommended to the Board the re-appointment of KPMG as external auditors at the 2018 AGM.

INTERNAL AUDIT

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors and reviews the effectiveness of the Group's internal audit function in the overall context of the Group's risk management system.	The Group's internal audit function reports directly to the Committee. Each year, the Head of Internal Audit presents an annual internal audit strategy and plan to the Committee for consideration and approval. In general, the most significant business risks and controls are usually considered for audit annually whilst less critical risks are audited periodically as part of a flexible multi-year programme. The findings of each audit are reported to the Committee at the quarterly meetings and the Committee reviews the actions taken by management to implement the recommendations of internal audit. The Committee meets in executive session with the Head of Internal Audit on at least an annual basis. During 2017, the Committee reviewed and approved an updated Internal Audit Charter. This can be viewed on the Group's website. The Group CRO undertook an annual review of the implementation of the internal audit programme during 2017 to ensure its continued efficiency and appropriate standing within the Company and the effectiveness of the internal audit function. The Committee discussed the report and its findings with the Group CRO and the Head of Internal Audit and concluded that the internal audit function is operating effectively in the overall context of the Group's risk management system.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Reviews the adequacy and effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and reviews and approves the statements to be included in the Annual Report and Accounts concerning internal control, risk management and the viability statement.	The Board has ultimate responsibility for ensuring the maintenance by the Group of a robust framework of internal control and risk management systems, and has delegated the monitoring and review of these systems to the Committee. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee receives from the Head of Internal Audit an annual assessment of the Group's governance, risk and control framework together with an analysis of themes and trends from the internal audit work and their impact on the Group's risk profile. In 2017, the Committee and Board were satisfied that the governance, risk and control framework remains effective and appropriate for the Lancashire Group.
Reviews for adequacy and security the Group's compliance, 'whistleblowing' and fraud controls.	During 2017, the Committee conducted an annual review of the Group's policies and procedures relevant to financial controls and recommended the adoption by the Board of updated policies and procedures in respect of anti-money laundering, bribery and financial crime (including fraud), conflicts of interest and whistleblowing. There were no suspicious transaction or whistleblowing reports made during the year (whether arising from suspected money laundering activity or knowledge of, suspicion or concern relating to suspected acts of bribery or any other type of financial crime, dishonesty or impropriety). The Committee also keeps under review the adequacy and effectiveness of the Group's legal and compliance function.

Significant areas of judgement or estimation

Loss reserves and expenses

As detailed on pages 140 to 142 of the consolidated financial statements, the estimation of ultimate loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Reserving Actuary. KPMG conduct a high-level review of the Group's loss reserves as part of their first and third quarter review procedures. The external independent actuary and KPMG present a comparison of Lancashire's booked reserves to their own best estimates at the second and fourth quarter Audit Committee meetings. Following the loss events in the third quarter of 2017, the Committee met with the Group's Reserving Actuary and KPMG's actuarial partner to review the adequacy of the Group's loss reserves. Management provided the Board with an analysis detailing how the loss ranges for each event were determined, and how they were challenged and supported. During 2017, the Committee focused its discussions around the Group's loss reserves on: the range of reasonable actuarial estimates and the divergence of the Group's estimates to the external actuarial estimates; current and prior year loss development including 'back-testing' of the Group's prior year reserves; and reserving for each insurance operating subsidiary. Having reviewed and challenged these areas, the Committee concurred with management's valuation of the Group's loss reserves and the relevant disclosures around loss reserving in the Group's consolidated financial statements.

Intangible asset valuation

The Group has two indefinite life intangible assets following the acquisition of Cathedral – goodwill and syndicate participation rights. Intangible assets with indefinite useful lives are subject to an impairment review at least annually, or sooner if there is an indication of impairment. Some of the key inputs in the impairment review are based on management judgement and/or estimation (see page 95 of the consolidated financial statements for further details). These inputs are reviewed by the Audit Committee annually and are considered reasonable. The Audit Committee also considers the Group's internal stress tests and what stress scenarios would have to occur to indicate an impairment of its intangible assets. As a result of these considerations the Audit Committee agreed with management and KPMG that there was no impairment of the Group's intangible assets.

Priorities for 2018

The Committee's key priorities for 2018 are:

- To ensure the continued effectiveness of the Group's controls environment, the operation of the business's financial reporting systems and the integrity of external financial reporting.
- To continue to monitor the preparation by the Group for the implementation of IFRS 17.

IFRS 17, Insurance Contracts

During 2017 the International Accounting Standards Board issued IFRS 17, which will be mandatorily effective for annual reporting periods beginning on or after 1 January 2021. Management is in the pre-planning stage for this project and during 2017 it engaged Ernst & Young LLP to assist in the preparation of an initial operational impact assessment. KPMG provided the Audit Committee with preliminary training on IFRS 17 in the fourth quarter of 2017. During 2018 the Committee will continue to monitor the preparation by the Group for the implementation of IFRS 17.

Nomination and Corporate Governance Committee

Peter Clarke
Chairman of the Nomination and Corporate Governance Committee

During 2018, the Committee will continue to monitor governance developments, in particular the anticipated changes to the UK Corporate Governance Code, to ensure that the Group maintains its flexible and proactive culture to best serve the strategic needs of our business.

Committee membership

A majority of the members of the Nomination and Corporate Governance Committee are independent Non-Executive Directors. The Committee Chairman is Peter Clarke, who is the Chairman of the Board.

	Meetings attended
Peter Clarke (Chairman)	4/4
Michael Dawson	4/4
Samantha Hoe-Richardson	4/4
Tom Milligan	4/4

Principal responsibilities of the Committee

- Reviews the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board;
- Considers succession planning for Directors and other senior executives;
- Nominates candidates to fill Board vacancies;
- Makes recommendations to the Board concerning Non-Executive Director independence, membership of Committees, suitable candidates for the role of Senior Independent Director, and the re-election of Directors by shareholders;
- Reviews the Company's corporate governance arrangements and compliance with the Code; and
- Makes recommendations to the Board concerning the charitable and corporate social responsibility activities of the Company and donations to the Lancashire Foundation.

How the Committee discharged its responsibilities during 2017

Board composition

The Committee reviewed the composition of the Board to ensure that the balance of skills, knowledge, independence, experience and diversity continue to be appropriate for the Group's business to meet its strategic objectives. The Committee also considered whether any additional skills and experience were needed to complement those already on the Board.

In this regard, the Committee engaged external executive search firms, which have no other connection to the Group. They identified a number of potential candidates, although no additional appointments were made to the Board during the year. In accordance with the provisions of the Code, all of the Directors are subject to annual election by shareholders. All of the Directors were re-elected by shareholders at the 2017 AGM.

The Committee recommended to the Board the appointment of Robert Lusardi as Chairman of the Investment Committee during the year.

Succession planning

The Committee reviewed the Company's succession plan for Executive Directors and other senior executives, taking into account the Company's risk environment and strategic objectives, as well as the anticipated demands and requirements of the business. One notable development to the succession plan was the introduction of a risk-weighted traffic light system to provide a 'dashboard' indication of areas in which succession risk is considered to be lower or more elevated. The Committee has continued to focus in its dialogue with management on the delivery of training and support and the development of talent across the Group. In 2017, there were further positive developments in the management of the Cathedral operations as well as a number of planned promotions within the underwriting teams.

Subsidiary boards

The Committee monitored the composition of subsidiary boards during 2017 and recommended appointments to the boards of LICL, KCML and CUL. The Committee also recommended the appointment of Nicholas Davenport as Chairman of the Board of CUL in succession to Tony Minns.

Corporate governance

The Committee keeps under review the Company's corporate governance, particularly compliance with the Code, and is responsible for making recommendations to the Board concerning the process for conducting and facilitating the annual performance evaluation of the Board, its Committees and the individual Directors – see page 48.

During 2017, the Committee recommended the approval and adoption by the Board of an amended Schedule of Reserved Matters, and an amended and restated Terms of Reference of the Audit Committee. Copies of these documents are available on the Company's website.

The Committee also recommended the approval by the Board of an updated protocol for the division of responsibilities and roles of the Chairman and Group CEO and the responsibilities and reporting lines of the CEOs of Group subsidiaries.

The Committee considered statistics relevant to the gender composition of the Board, Group management excluding LHL Non-Executive Directors, and overall Group employees. These statistics are shown opposite. The Committee also reviewed comparative pay data by gender within the Lancashire Group. The Committee recommended approval by the Board of an updated diversity policy, which is posted on the Company's website. The Board remains of the view that the skills and experience needed to take the business of the Company forward are of paramount importance in selecting Board members, members of executive committees and senior management or, indeed, any role within the business. The Committee and Board recognise that there is increasingly an expectation within society, in particular as a result of the work of the Hampton-Alexander Review, that businesses should adopt a fixed percentage target for gender diversity. Accordingly the Board has modified its previously stated position so as to adopt a goal for the representation of women on the Board of LHL and the principal management executive committee of 33 per cent by 2020. The Board does not view the new goal as a 'black line' but rather a flexible target against which the business should measure its performance and strategy. Identifying 'the best person for the job' remains paramount in identifying the right candidate. Lancashire's approach to recruitment and in particular ensuring the benefits of a broad diversity throughout the business is discussed further on page 40 in the discussion of the workplace culture.

The Committee also recommended the approval by the Board of an updated Slavery and Human Trafficking statement, a copy of which is posted on the Company's website.

The Lancashire Foundation

The Committee is responsible for monitoring and making recommendations to the Board in relation to the Company's charitable giving policy and the operation of, and reporting requirements for, the Lancashire Foundation. During 2017, the Committee received a report on the Foundation, including its objectives, governance, investment strategy, donations policy and charitable activities, and considered the ways in which the Foundation engages with employees throughout the Group. The Committee made a recommendation to the Board that during 2018, due to the Group's financial performance in what was a year impacted by significant catastrophe losses, there should not be a donation from the Group to the Foundation. It was, however, noted by the Committee and the Board that the Foundation had sufficient assets to implement its plans and to meeting its spending commitments over the next three years.

Priorities for 2018

The Committee's key priorities for 2018 are:

- To continue to develop the succession plans for Directors and senior executives, in line with the Group's strategic objectives, and to support management in the development of the talent pipeline;
- To review the outcome of the 2017 performance evaluation process as it relates to the Committee and the composition of the Board, and to agree and monitor any required actions; and
- To continue the Committee's focus on corporate governance requirements, regulatory developments and compliance with the Code, specifically in light of the anticipated changes to the Code which have been tabled for industry consultation during 2018.

LHL Board members

Male: 6 (75%)
Female: 2 (25%)
Total: 8

Group management excluding LHL Non-Executive Directors

Male: 14 (73.7%)
Female: 5 (26.3%)
Total: 19

Overall Group employees

Male: 123 (60%)
Female: 81 (40%)
Total: 204

Investment Committee

Robert Lusardi
Chairman of the Investment Committee

Our investment philosophy is to preserve capital and to ensure liquidity in our investments while ensuring appropriate connectivity with, and support for, the Group's underwriting operations. The Group's strategy has been to remain relatively short in duration over the course of 2017 and into 2018 in anticipation of rising interest rates.

Committee membership

The Investment Committee comprises two independent Non-Executive Directors, the Chairman of the Board, one Executive Director (the CFO) and the Chief Investment Officer (who is not a Director).

	Meetings attended
Robert Lusardi (Chairman)[1]	4/4
Peter Clarke[1]	4/4
Tom Milligan	4/4
Elaine Whelan	4/4
Denise O'Donoghue	4/4

(1) Peter Clarke stepped down as Chairman of the Investment Committee with effect from 3 May 2017 and was succeeded by Robert Lusardi.

Principal responsibilities of the Committee

- Recommends investment strategies, guidelines and policies to the Board of the Company and other members of the Group to approve annually;
- Recommends and sets risk asset definitions and risk tolerance levels;
- Recommends to the relevant boards the appointment of investment managers to manage the Group's investments;
- Monitors the performance of investment strategies within the risk framework; and
- Establishes and monitors compliance with investment operating guidelines relating to the custody of investments and the related internal controls.

How the Committee discharged its responsibilities during 2017

The Committee regularly discussed and kept under review macro-economic, capital markets and global political developments during the year, in particular fiscal and political developments in the U.S. and the ongoing impact of the UK's Brexit negotiations on investment strategy and performance. The Committee also considered regular reports on the performance of the Group's investment portfolios, including asset allocation and compliance with pre-defined guidelines and tolerances; and recommended amendments to portfolio investment guidelines to the boards of LHL, LICL, LUK and CUL.

The Committee focused in its discussions on the investment strategy priorities of preserving capital, ensuring the appropriate balance of risk assets and affording sufficient liquidity in the investment portfolio. These questions of investment strategy were all framed within the context of the Board's objective of ensuring appropriate connectivity with, and support for, the Group's underwriting operations.

The Committee also recommended to the Board and the boards of certain subsidiaries the appointment of a new investment manager to manage cash and cash equivalents on a Group platform.

The Committee received presentations from two of the portfolio investment managers during the year. During the fourth quarter of 2017, the Committee considered the impact on the portfolio of the payment of claims arising from the large loss events of late 2017, noting in particular that, in what had been a significant year for catastrophe losses, the portfolio had performed well in meeting the liquidity requirements of the business.

Priorities for 2018

The Committee's key priorities for 2018 are:

- To maintain a continued focus on the preservation of capital, the maintenance of liquidity and the management of interest rate and other emerging investment risks; and
- A review of the asset allocation strategy taking into account a rising interest rate environment, market valuations, expected returns, and the current state of insurance underwriting markets.

Underwriting and Underwriting Risk Committee

Alex Maloney
Chairman of the Underwriting and Underwriting Risk Committee

The Committee provides a forum for discussing the trends in the pricing and coverage terms for the market sectors in which we operate. The losses to the market in 2017 have demonstrated the value of the work which our underwriters, management and the Committee perform in managing our risk exposures through the insurance cycle.

Committee membership

During 2017, the Underwriting and Underwriting Risk Committee comprised one Executive Director (the Group CEO) and two Non-Executive Directors together with the Group CUO, the CUO of LICL, the CUO and Reinsurance Manager of LUK, the Active Underwriters for Syndicates 2010 and 3010, and the Deputy Group Chief Actuary (who are not Directors).

	Meetings attended
Alex Maloney (Chairman)	4/4
Jon Barnes[1]	3/3
Michael Dawson	4/4
Paul Gregory	4/4
Hayley Johnston	4/4
Tom Milligan	4/4
Sylvain Perrier	4/4
Ben Readdy	4/4
John Spence[2]	3/4
Richard Williams[3]	0/1

(1) Jon Barnes was appointed as a member of the Underwriting and Underwriting Risk Committee with effect from 15 February 2017.
(2) John Spence was unable to attend the 25 July 2017 meeting of the Underwriting and Underwriting Risk Committee.
(3) Richard Williams retired as a member of the Underwriting and Underwriting Risk Committee with effect from 15 February 2017.

Principal responsibilities of the Committee

- Reviews Group underwriting strategy;
- Oversees the development of, and adherence to, underwriting guidelines by operating company CUOs;
- Reviews underwriting performance;
- Reviews significant changes in underwriting rules and policies;
- Establishes, reviews and maintains strict underwriting criteria and limits; and
- Monitors underwriting risk and its consistency with the Group's risk profile and risk appetite.

How the Committee discharged its responsibilities during 2017

The Committee is actively engaged in the development of strategy and the formal underwriting risk tolerances, which are reviewed by the Committee and approved by the Board. Underwriting risk is the key risk faced by the Group. Specifically, the Committee receives quarterly risk data tracking movements in the Group's exposures to modeled PMLs and RDSs.

The Committee also monitors underwriting performance on a quarterly basis. Good risk selection remains at the heart of the Group's strategy, in particular in the recent soft phase of the market cycle. The Committee also reviewed management reports on the structuring and pricing of the outwards reinsurance protections purchased across the Group. The Committee received quarterly update reports from the Active Underwriters of Syndicates 2010 and 3010, the Chief Underwriting Officers for LUK and LICL and the CEO of KCML during 2017.

The Committee also received quarterly reports of significant claims and related developments.

The Committee enhanced the reporting of new business options developed or considered by management during the course of 2017, which afforded scope for fruitful debate on risk and opportunities.

During 2017, the Committee meetings were open to attendance by all of the Board members and provided a useful forum for the discussion of underwriting performance, risk tolerances and strategic initiatives. The Committee and Board place great importance on the management of the Company's capital so as to match capital to the underwriting requirements of the business in all parts of the underwriting cycle.

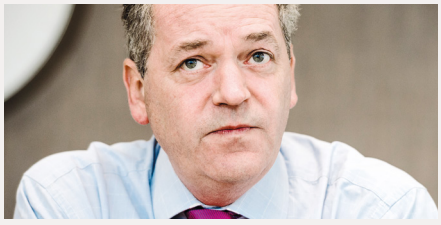
A more detailed analysis of the Group's underwriting performance appears in the Business Review section of this Annual Report and Accounts on pages 24 to 30.

Priorities for 2018

The Committee's key priorities for 2018 are:

- To continue to monitor the development of a forward-looking and disciplined underwriting strategy appropriate for the Group's underwriting platforms, within a framework of appropriate risk tolerances; and
- To work actively with management in the identification, analysis and consideration of such new underwriters and/or lines of business as may complement or enhance existing underwriting strategy.

Remuneration Committee



Simon Fraser
Chairman of the Remuneration Committee

The Committee seeks to implement a Remuneration Policy which ensures the retention of our most valued staff whilst affording linkage between remuneration and appropriate targets for company and personal performance. We seek to achieve a balance that avoids the incentivisation of excessive risk-taking or a culture of short-termism.

Committee membership

The Remuneration Committee comprises three independent Non-Executive Directors and the Chairman of the Board.

	Meetings attended
Simon Fraser (Chairman)	4/4
Peter Clarke	4/4
Michael Dawson	4/4
Robert Lusardi	4/4

Principal responsibilities of the Committee

- Sets the remuneration policy for, and determines the total individual remuneration packages, including pension arrangements of, the Company's Chairman, the Executive Directors, Company Secretary and other designated senior executives, to deliver long-term benefits to the Group;
- Agrees personal objectives for each Executive Director and the related performance and pay-out metrics for the performance element of the annual bonus;
- Determines each year whether awards will be made under the Group's RSS and, if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives, and the performance targets to be used;
- Ensures that contractual terms on termination or retirement, and any payments made, are fair to the individual and the Company; and
- Oversees any major changes in employee benefit structures throughout the Group.

How the Committee discharged its responsibilities during 2017

During 2017, the Committee reviewed the Group incentive packages to ensure that remuneration is structured appropriately to promote the long-term success of the Company. The Committee also reviewed the RSS structure for Executive Directors to ensure that the performance metrics continue to align the interests of the Company with its investors and management. The Committee considered the salary and bonus awards for 2017 for Executive Directors and other designated senior executives. The Committee also approved the grant of awards under the Company's RSS.

The Committee reviewed Executive Directors' shareholdings in the context of the Company's share ownership guidelines for senior/key executives and discussed revisions to the guidelines to reflect more recent changes to the composition of the senior management team.

The Committee also reviewed the policy for Executive Directors' remuneration, which has a three-year life following its approval by shareholders at the 2017 AGM. The Committee considers the policy fit for purpose and does not propose any amendments at the 2018 AGM.

During 2017, the Committee recommended the approval and adoption by the Board of a Group Solvency II Identified Staff Remuneration policy. The Committee noted progress made during the year on the alignment of remuneration practices across the Group and that further such alignment measures will be implemented by the management team during 2018.

The Committee also recommended changes to the companies comprising the Company's peer group for comparator purposes in light of recent M&A activity.

The Committee considered a number of proposals relating to the treatment of RSS awards held by departing employees.

The Directors' Remuneration Policy and the Annual Report on Remuneration, for which the Committee is responsible, can be found on pages 60 to 79. The report contains a summary of the debate which has been had within the Committee and the Board on the alignment of remuneration and Group performance both in the current year and over a longer time frame.

Priorities for 2018

The Committee's key priorities for 2018 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures, ensuring that they are in line with the Group's business strategy, risk profile, objectives, risk management practices and long-term interests; and
- To review arrangements for remuneration across the wider Group with a view to further aligning the processes for appraisal, objective setting and remuneration across the Lloyd's and non-Lloyd's platforms.

Annual statement

Dear Shareholder,

I am pleased to present the 2017 Directors' Remuneration Report to shareholders.

Shareholder decisions at the 2017 AGM

Lancashire's Directors' Remuneration Policy was approved by shareholders at the May 2017 AGM. There were minor (largely housekeeping) changes to the Policy, which had previously been approved by shareholders in 2014. Shareholders also approved a set of revised rules for Lancashire's long-term incentive RSS. The replacement 2017 RSS rules have substantially the same terms as the previous scheme, but incorporated some minor changes to bring the new rules more in line with current best practice. The new 2017 RSS rules took effect from the 2017 AGM.

Remuneration and strategy

The Group's goal continues to be to reward its employees fairly and responsibly by providing an appropriate balance between fixed remuneration and variable remuneration linked to the achievement of suitably challenging Group and individual performance measures.

There is a strong link between the Remuneration Policy and the business strategy. As highlighted elsewhere in this Annual Report and Accounts, our strategy focuses on the effective operation of the business necessary to maximise long-term RoE and the delivery of superior total shareholder returns on a risk-adjusted basis over the course of the insurance cycle. Our Remuneration Policy and the way it is implemented are closely aligned to this strategy.

As I reported in the 2016 Annual Report and Accounts, the Board and management believe that the insurance industry is cyclical in its fundamental characteristics. At the low point in the insurance cycle, which we witnessed throughout 2016 and the first half of 2017, the Board has sought to prioritise achieving acceptable, but more modest, returns whilst moderating overall risk levels through underwriting discipline and prudent reinsurance planning. Of equal importance has been the need to ensure that throughout the softer part of the market cycle the business has continued to service the needs of its core clients and brokers. The Board has prioritised the need to ensure the continuing relevance of the business to its clients, shareholders and other stakeholders, and to position the business well for the time when market conditions turn.

Performance outcomes for 2017 – A challenging year

On account of the severe year for insured losses, due to the sequence of major natural catastrophe losses which occurred during 2017, the Group has produced an RoE of negative 5.9 per cent, which is the only negative full year annual RoE since the Group's foundation in 2005 (see the strategy and performance reviews of this Annual Report and Accounts on pages 12 to 41).

Notwithstanding this, the Board and Committee were, on balance, satisfied with the outcomes in light of these events. Whilst the annual earnings have been impacted in comparison with previous years, there has not been a significant impairment to capital even in the face of the number of loss events. The business is well-positioned to compete in the market as we enter 2018 in what we expect to be an improving phase of the insurance cycle. This is in no small amount down to the work and planning of our management team in delivering a portfolio of business which was better able to respond to the challenge of a series of severe loss events notwithstanding the softer rating environment in which the Group and the whole (re)insurance sector have been operating in recent years.

Against the background described above there has been a decrease in total remuneration of 49 per cent for the CEO and 47 per cent for the CFO between 2016 and 2017 (see the comparison table for single figure remuneration on page 70). This movement is driven by an RoE of negative 5.9 per cent for 2017 compared with 13.5 per cent for 2016, which affected vesting levels on the 2015 RSS awards (see below and page 73 for further details).

Executive Directors' annual bonus performance targets set at the beginning of 2017 for personal and financial performance were stretching, and given the Company's 2017 lower return in comparison with previous years (as a result of the severe catastrophe loss environment) resulted in no annual bonus in relation to the financial element which made up 75 per cent of the annual bonus opportunity. The Board did however consider that both the Executive Directors had performed strongly in managing risk within the business and in positioning the Group well for what we hope will be a better rating environment in 2018 and 2019, therefore a bonus was awarded for the personal component in respect of 2017 performance. In summary, annual bonuses for our Executive Directors were achieved substantially below target level at only 17 per cent of maximum bonus for the CEO and 18 per cent of maximum bonus for the CFO (see page 72 for further details).

In relation to long-term incentives, the 2015 Performance RSS awards were 75 per cent based on absolute RoE targets and 25 per cent on relative TSR against specified peer group companies over the three-year period to 31 December 2017. Our TSR performance (in U.S. dollars) over this period ranked the Company below the median of the designated peer group of 11 companies, resulting in 0 per cent vesting for the TSR component.

Our average RoE performance over this three-year performance period was 7.0 per cent against a threshold target of the 13-week Treasury bill rate plus 6 per cent and a maximum payout of the 13-week Treasury bill rate plus 15 per cent, resulting in 30.1 per cent of the RoE component of the 2015 Performance RSS awards vesting. Overall, the 2015 Performance RSS awards vested at 22.5 per cent. This compared with the overall 67.4 per cent vesting of the 2014 Performance RSS awards due to 89.8 per cent vesting of the RoE portion of those awards and 0 per cent vesting of the TSR portion of the awards, which we reported last year.

The total remuneration received by our Executive Directors in 2017 was accordingly significantly lower than that received in 2016 (see page 70 for the comparison data) and significantly lower than in many previous years, as demonstrated by the table of Total Remuneration History for the CEO on page 78.

The Committee believes in setting challenging performance criteria and having a significant proportion of the overall package linked to Company performance. However, the Committee also continues to recognise the need to ensure that Executive Directors are appropriately remunerated and incentivised even in the more challenging phases of the insurance cycle, as at present.

It is also important that the Committee and the Board ensure that Executive Director compensation is structured in such a way as to discourage excessive risk to the business.

The like-for-like employee costs for the Group were $39.8 million in 2017 compared with $72.1 million in 2016 (see page 78 for further detail). This 45 per cent decrease in employee costs is primarily attributed to the decrease in annual bonus and long-term incentive award grants.

Overall, in light of the annual and three-year performance delivered, the Committee is satisfied that there has been a robust link between performance and reward for Executive Directors. However, in the context of the steep decline in Executive Director remuneration for 2017, when compared with previous years, it is recognised by our Executive Directors that in a significant loss-making year (due to higher than normal natural catastrophe losses) it is appropriate for their remuneration outcomes to be aligned with the fortunes of our shareholders. In the insurance sector, which is powerfully cyclical, Lancashire will continue to ensure that there remains appropriate alignment between executive remuneration and Company performance not only in loss-affected years, but also in those future years when the Group hopes to produce results more in line with its cross-cycle return target.

Application of Remuneration Policy for 2018

The Remuneration Committee has reviewed the 2017 Directors' Remuneration Policy approved by shareholders and considers it to remain fit for purpose.

The Board has decided to apply the targets for the annual bonus on substantially the same basis as agreed for 2017. For the three-year longer-term RSS incentive awards, the Committee has decided to modify the structure for the 2018 awards, whilst remaining within the bounds of our overarching shareholder-approved Policy.

The loss-making year of 2017 has had a very negative impact on the long-term RSS awards made in 2015, and is also expected to have a similar impact on the 2016 and 2017 RSS awards as we have used a rolling three-year average return to calculate the Company's performance. In fact the Board believes that management's performance in each of these years has been excellent and the financial results have been strong, given the market backdrop in 2015 and 2016 and the natural catastrophe frequency in 2017. Nevertheless, the impact of the 2017 year is expected to result in much lower levels of vesting of the long-term RSS awards granted in all these three years for senior management than the Board believes is warranted.

The Committee has decided that the best way to avoid one loss-making year having too big an impact on a series of RSS awards in the future is to separate the financial element of the award into three annual tranches. The RSS awards will still only vest after the three-year period, and the two-year subsequent holding period of course remains in place. We believe that this will help to create long-term value for our senior people in the future and avoid the problem of a big natural catastrophe year overly impacting the shares element of our remuneration structure. This will improve the retention value of the long-term incentive awards.

The Committee will also be able to exercise downwards discretion at the end of an award period if it feels that the Executive Directors have not managed the business well, including in a loss-making year falling within the performance period of an RSS award.

In addition, for our long-term RSS award TSR calculation, we are moving to an absolute TSR with a challenging threshold from the relative TSR calculation used in previous years. This is due to the radical reduction in the number of quoted peers which the Company now has as a result of M&A both in the UK and Bermuda. The Committee believes this has left the Company with no really relevant competitor group in the quoted sector and leads to unhelpful volatility in this part of the award. Further details are set out on pages 69 and 70 of this report.

The final section of this report is the Annual Report on Remuneration, which provides detailed disclosure on how the Policy will be implemented for 2018 and how Directors have been paid in relation to 2017.

The disclosures provide our shareholders with the information necessary to form a judgement as to the link between Company performance and how the Executive Directors are paid. This Annual Statement together with the Annual Report on Remuneration will be subject to an advisory vote and I hope that you will be able to support the resolution at the forthcoming AGM. The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters and I welcome any feedback you may have.

Simon Fraser
Chairman of the Remuneration Committee

Directors' Remuneration Policy section

As a company incorporated in Bermuda, Lancashire is not bound by UK law or regulation in the area of Directors' remuneration to the same extent that it applies to UK incorporated companies. However, by virtue of the Company's premium listing on the LSE, and for the purposes of explaining its compliance against the requirements of the UK Corporate Governance Code, the Board is committed to providing full information on Directors' remuneration to shareholders.

The Company's Remuneration Policy was approved by shareholders at the 2017 AGM and is effective for a period of three years from the 2017 AGM until the AGM in 2020 (or until amended by a decision of shareholders). The 2017 Remuneration Policy was developed taking into account the principles of the Code and the views of our major shareholders.

The 2017 Remuneration Policy contains details of the Company's policy to govern future payments that will be made to Directors.

The Annual Report on Remuneration also details the remuneration paid to Directors in respect of the 2017 financial year in accordance with the shareholder-approved Policy.

Governance and approach

The Company's Remuneration Policy is geared towards providing a level of remuneration which attracts, retains and motivates Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters. The Remuneration Policy also seeks to ensure that Executive Directors are provided with appropriate incentives to drive individual performance and to reward them fairly for their contribution to the successful performance of the Company.

The Remuneration Committee and the Board have again considered whether any element of the Remuneration Policy could conceivably encourage Executive Directors to take inappropriate risks and have concluded that this is not the case, given the following:

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance-related pay to meet their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- there is a high level of share ownership amongst Executive Directors, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to clawback bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Group's consolidated financial statements, errors in the calculation of any performance condition, or the Executive Director ceasing to be a Director and/or employee due to gross misconduct.

How the views of shareholders are taken into account

The Committee Chairman and, where appropriate, the Company Chairman, consult with major investors and representative bodies on any significant remuneration proposal relating to Executive Directors. Views of shareholders at the AGM, and feedback received at other times, will be considered by the Committee.

How the views of employees are taken into account

The Remuneration Committee takes into account levels of pay elsewhere in the Group when determining the pay levels for Executive Directors. The Remuneration Policy for all staff is, in principle, broadly the same as that for Executive Directors in that any of the Group's employees may be offered similarly structured packages, with participation in annual bonus and long-term incentive plans, although award types (restricted cash, restricted stock or performance shares) and size may vary between different categories of staff. For Executive Directors, with higher remuneration levels, a higher proportion of the compensation package is subject to performance pay, share-based remuneration and deferral. This ensures that there is a strong link between remuneration, Company performance and the interests of shareholders.

Reflecting good practice in this area, Executive Directors' pension provision is no more generous than the pension contributions made to employees in the Group (in percentage of salary terms).

The Company does not consult with employees on Executive Directors' remuneration. However, as noted above, the Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors.

Remuneration Policy table

Base Salary	
Purpose and Link to Strategy	Helps recruit, motivate and retain high-calibre Executive Directors by offering salaries at market competitive levels. Reflects individual experience and role.
Operation	Normally reviewed annually and fixed for 12 months, typically effective from 1 January. Positioning and annual increases influenced by: • role, experience and performance; • change in broader workforce salary; • changes to the size and complexity of the business; and • changes in responsibility or position. Salaries are benchmarked periodically against insurance company peers in the UK, U.S. and in Bermuda.
Opportunity	No maximum.

Benefits	
Purpose and Link to Strategy	Market competitive structure to support recruitment and retention. Medical cover aims to ensure minimal business interruption as a result of illness.
Operation	Executive Directors' benefits may include healthcare, dental, vision, gym membership and life insurance. Other additional benefits may be offered from time to time that the Committee considers appropriate based on the Executive Director's circumstances. Executive Directors who are expatriates or are required to relocate may be eligible for a housing allowance or other relocation-related expenses. Any reasonable business-related expense can be reimbursed, including any personal tax thereon if such expense is determined to be a taxable benefit.
Opportunity	No maximum.

Pension	
Purpose and Link to Strategy	Contribution towards funding post-retirement lifestyle.
Operation	The Company operates a defined contribution pension scheme (via outsourced pension providers) or cash-in-lieu of pension. There is a salary sacrifice structure in the UK. There is the opportunity for additional voluntary contributions to be made by individuals, if elected.
Opportunity	Company contribution is currently 10 per cent of base salary.

Annual Bonus[1,2]	
Purpose and Link to Strategy	Rewards the achievement of financial and personal targets.
Operation	The annual bonus is based on financial and personal performance. The precise weightings may differ each year, although there will be a greater focus on financial as opposed to personal performance. The Committee will have the ability to override the bonus outcome by either increasing or decreasing the amount payable (subject to the cap) to ensure a robust link between reward and performance. At least 25 per cent of each Executive Director's bonus is automatically deferred into shares as nil-cost options or conditional awards over three years, with one third vesting each subsequent year. A dividend equivalent provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil-cost options up to the point of exercise. The bonus is subject to clawback if the consolidated financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions on bonus and/or if the Executive ceased to be a Director or employee due to gross misconduct.

Opportunity	The maximum bonus for Executive Directors for achieving target level of performance as a percentage of salary is 200 per cent of salary. Maximum opportunity is two times target. Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Policy section of the Annual Report on Remuneration.
Performance Metrics	The weightings that apply to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will be at least 75 per cent of the overall opportunity, and no more than 25 per cent will be based on personal or strategic objectives. **Financial Performance** The financial component is based on the Company's key financial measures of performance. For any year, these may include RoE, growth in BVS, profit, comprehensive income, combined ratio, investment return or any other financial KPI[3]. Typically, a sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. Up to 25 per cent of the total bonus opportunity is payable for achieving threshold/median, rising to maximum bonus for stretch/upper quartile performance. The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. **Personal Performance** Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the payout for this part of the bonus.
Long Term Incentives (LTI)	
Purpose and Link to Strategy	Rewards Executive Directors for achieving superior returns for shareholders over a longer time frame. Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.
Operation[2,3]	RSS awards are normally made annually in the form of nil-cost options (or conditional awards) with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years. The number of awards will normally be determined by reference to the share price around the time of grant unless the Committee, at its discretion, determines otherwise. The Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set. Awards are subject to clawback if there is a material misstatement in the Company's consolidated financial statements, an error in the calculation of any performance conditions or if the Executive Director ceases to be a Director or employee due to gross misconduct. A dividend equivalent provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise. The Committee has the discretion, in exceptional circumstances, to settle an award made to Executive Directors in cash. A two-year post-vesting holding period applies to awards made to Executive Directors since 2016.
Opportunity	Award levels are determined primarily by seniority. A maximum individual grant limit of 350 per cent of salary applies. Note: The Committee may set the normal level of award at less than the percentage set out above – see Implementation of Remuneration Policy section of the Annual Report on Remuneration.
Performance Metrics	Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant. These may include measures such as TSR, RoE/BVS, Company profitability, or any other relevant financial measures. If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remains appropriate. A sliding scale of targets applies for financial metrics with no more than 25 per cent vesting for threshold performance. For TSR, none of this part of the award will vest below median ranking or achievement of an index. No more than 25 per cent of this part of the award will vest for achieving median or index.

Remuneration Policy table continued

Share Ownership Guidelines[4]

Under the guidelines, Executive Directors are expected to maintain an interest equivalent in value to no less than two times salary over time. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50 per cent of the net of tax value of awards that vest under the RSS.

Chairman and Non-Executive Directors' fees

Purpose and Link to Strategy	Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.
Operation	The Chairman is paid a single fee for his responsibilities as Chairman. The level of these fees is reviewed periodically by the Committee and the CEO by reference to broadly comparable businesses in terms of size and operations. In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken, including a Non-Executive Director role on a subsidiary board. Any reasonable business-related expenses (including any personal tax payable) can be reimbursed.
Opportunity	No maximum.

(1) The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this policy.

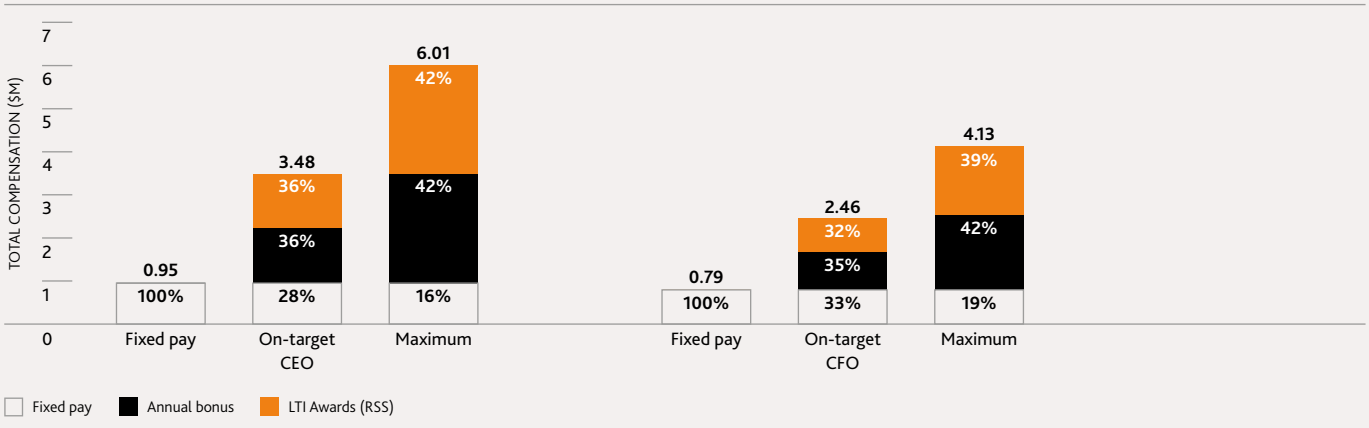
(2) All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the policy.

(3) Performance measures: these may include the performance indicators shown on pages 18 to 19 or others described within the Annual Report and Accounts Glossary commencing on page 153 or any other measure that supports the achievement of the Company's short to long-term objectives.

(4) Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Illustrations of annual application of Remuneration Policy

The charts below show the potential total remuneration opportunities for the Executive Directors in 2018 at different levels of performance under the Directors' Remuneration Policy.



Fixed pay = 2018 Salary + Actual Value of 2017 Benefits + 2018 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2018 RSS grant (assuming 50 per cent vesting with face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2018 RSS grant (assuming 100 per cent vesting with the face values of grant).

No account has been taken of any share price growth or dividend equivalent accruals.

Approach to recruitment remuneration

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. The Committee retains the flexibility to set base salary for a newly appointed Executive Director below the mid-market level and allow them to progress quickly to or around mid-market level once expertise and performance have been proven. This decision would take into account all relevant factors noted above.

The annual bonus and LTI potential would be in line with the Policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different bonus performance measures for the performance year during which he or she became an Executive Director. The Committee may grant an LTI award shortly after joining, up to the plan limits set out in the Remuneration Policy table (assuming the Company is not in a closed period).

In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods (which may be less than three years), expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may agree that the Company will meet certain relocation expenses as appropriate and is able to provide expatriate benefits including housing, a relocation allowance, assignment-related costs or tax equalisation.

Service contracts and loss of office payment policy for Executive Directors

Executive Directors have service contracts with six-month notice periods. In the event of termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary plus the value of benefits to which the Executive Directors are contractually entitled for the unexpired portion of the notice period. The Company may pay statutory claims. No Executive Director has a contractual right to a bonus for any period of notice not worked.

The service contract for a new appointment will be on similar terms as existing Executive Directors, with the facility to include a notice period of no more than 12 months from either party.

The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service contract of any Executive Director. There are no special provisions in the service contracts for payments to Executive Directors on a change of control of the Company.

In the event of an exit of an Executive Director, the overriding principle will be to honour contractual remuneration entitlements and determine, on an equitable basis, the appropriate treatment of deferred and performance-linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Depending on the leaver classification, an Executive Director may be eligible for certain payments or benefits continuation after cessation of employment.

If an Executive Director resigns or is summarily dismissed, salary, pension and benefits will cease on the last day of employment and there will be no further payments.

Leaver on arranged terms or good leaver

If an Executive Director leaves on agreed terms, including compassionate circumstances, there may be payments after cessation of employment. Salary, pension and benefits will be paid up to the length of the agreed notice period or agreed period of gardening leave.

Subject to performance, a bonus may be payable at the discretion of the Committee pro-rata for the portion of the financial year worked.

Vested but unexercised deferred bonus RSS awards will remain exercisable. Unvested deferred bonus RSS awards will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date.

Vested but unexercised RSS awards may remain exercisable for 12 months. Unvested awards may vest on the normal vesting date unless the Committee determines that such awards shall instead vest at the time of cessation. Unvested awards will only vest to the extent that the performance conditions have been satisfied (over the full or curtailed period as relevant). A pro-rata reduction in the size of awards may apply, based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year or other relevant vesting period.

The Committee has discretion to permit unvested RSS awards to vest early rather than continue on the normal vesting timetable and also retains discretion as to whether or not to apply (or to apply to a lesser extent) the pro-rata reduction to the RSS awards where it feels the reduction would be inappropriate.

Depending upon circumstances, the Committee may consider other payments in respect of any claims in connection with a termination of employment where deemed appropriate, including an unfair dismissal award, outplacement support and assistance with legal fees.

Terms of appointment for Non-Executive Directors

The Non-Executive Directors serve subject to the Company's Bye-laws and under letters of appointment. They are appointed subject to re-election at the AGM and are also terminable by either party on six months' notice except in the event of earlier termination in accordance with the Bye-laws. The Non-Executive Directors are typically expected to serve for up to six years, although the Board may invite a Non-Executive Director to serve for an additional period. Their letters of appointment are available for inspection at the Company's registered office and at each AGM.

In accordance with best practice under the Code, the Board ordinarily submits the Directors individually for re-election by the shareholders at each AGM.

Legacy arrangements

In approving the Policy, authority is given to the Company for the duration of the Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company which was approved by shareholders and was in effect at the time they were made); or (ii) to an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the revised Policy.

For the avoidance of doubt, this includes all awards granted under the 2008 RSS rules in accordance with the Policy approved at the 2014 AGM and the current Policy which was subsequently approved by shareholders at the 2017 AGM, and to employees of the Company who are not Directors at the date of grant. Outstanding RSS awards that remain unvested or unexercised at the date of this report (including for current Executive Directors as detailed on page 74 of the Annual Report on Remuneration) remain eligible for vesting or exercise based on their original award terms.

Annual Report on Remuneration

This Annual Report on Remuneration together with the Chairman's Statement, as detailed on pages 60 and 61, will be subject to an advisory vote at the 2018 AGM. The information on page 70 with respect to Directors' emoluments and onwards through page 79 has been audited by KPMG.

Implementation of Remuneration Policy for 2018

In relation to the Policy described in the previous section, the following section sets out additional disclosure on the expected application of the Policy for 2018.

Base salary and fees

Executive Directors

Increases and resulting salaries effective from 1 January 2018 are set out below:

- CEO – salary increased by 3 per cent to $844,135.
- CFO – salary increased by 3 per cent to $579,640.
- For 2018, increases of 3 per cent are in line with the salary increases for Group employees.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2018:

- The fee for the Chairman (Peter Clarke) will remain at $350,000 per annum.
- The Non-Executive Director fee will remain at $175,000 per annum.

Other Fees

- Samantha Hoe-Richardson is a Non-Executive Director of LUK in which capacity she will receive a fee of $64,500 per annum.
- Simon Fraser is a Non-Executive Director of CUL in which capacity he will receive a fee of $80,000 per annum.

Annual bonus

For 2018, the CEO and CFO will have a target bonus of 150 per cent of salary and, therefore, a maximum opportunity of 300 per cent of salary. This is within the approved policy limit and it is in line with last year's opportunity and represents a maximum bonus opportunity which is 100 per cent of salary less than the set policy limit.

The financial and personal portions of the annual bonus will remain unchanged with 75 per cent on financial performance and 25 per cent on personal performance.

Financial Performance (75 per cent)

The Company's most important financial KPI is RoE, which is the core indicator of the delivery of our strategic priorities of ensuring underwriting comes first, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on pages 14 and 15 of this Annual Report and Accounts). For 2018, the financial component for annual bonus is to be based on the performance of the Group's RoE, measured as the internal rate of return of the change in FCBVS plus accrued dividends.

A sliding scale range of RoE targets has been set by reference to the Risk Free Rate of Return as follows:

- 25 per cent of target bonus shall be payable at a threshold level of RoE equal to RFRoR + 6 per cent (0 per cent will be payable below this threshold).
- 50 per cent of target bonus shall be payable at a level of RoE equal to RFRoR + 7 per cent.
- 100 per cent of target bonus shall be payable at a level of RoE equal to RFRoR + 8 per cent.
- 200 per cent of target bonus shall be payable at a level of RoE equal to RFRoR + 14 per cent.

There shall be linear interpolation between these points. The Board considers that these target ranges are appropriately challenging, given the current insurance market conditions, and will help to ensure a strong link between remuneration for the Executive Directors and the Company's financial performance, the strategy and risk profile of the business and the investment return environment, without encouraging excessive risk-taking. In future years, the Committee would not normally expect to set reference points below the levels outlined above and, when appropriate, will set higher targets.

Personal Performance (25 per cent)
This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2018 personal objectives for each Executive Director.

Executive Director	Personal Performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2018 annual performance reviews, each Executive Director will receive a performance rating which will determine the level of personal performance bonus payout for which each Executive Director will be eligible.

Restricted Share Scheme

Performance Conditions

For Executive Directors, 2018 RSS awards are subject to a range based on (i) annual growth in FCBVS plus accrued dividends and (ii) absolute TSR performance conditions, both measured by reference to a period ending on 31 December 2020. These metrics aim to provide an appropriate focus on the Company's underlying financial performance and cycle management, and in the case of absolute TSR to provide an objective reward for delivering value to shareholders.

Weighting
For 2018, the weighting is 85 per cent on annual growth in FCBVS plus accrued dividends and 15 per cent on absolute TSR.

Target ranges
The annual growth in FCBVS plus accrued dividends target range for 2018 awards is:

- threshold – 6 per cent; and
- maximum – 13 per cent.

Within the three-year performance period each of the separate financial years will be treated as a separate element, each one contributing one-third to the overall outcome of the vesting of this element of the RSS award. In each year performance will be measured against the target range to determine the ultimate level of vesting in respect of one-third of the RSS award. Vesting will only occur after completion of the full three-year performance period, and continued employment of the Executive Director at the time of vesting. This change in the 2018 RSS award is intended to ensure that any single year which is significantly affected by catastrophe losses does not substantially diminish the long-term incentive and retention value of all subsisting RSS awards. Please see the Chairman's Statement on pages 60 and 61 for a further discussion of the rationale for the changes to the 2018 RSS awards.

The relevant element of the RSS award will not vest if annual growth in FCBVS plus accrued dividends is below threshold, 25 per cent of the relevant element of the RSS award will vest at threshold, and 100 per cent of the relevant element of the RSS award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

The Board and Committee consider that the maximum target represents exceptional performance, particularly in light of the challenging market conditions and significant insured loss environment experienced in 2017. The target range closely aligns the longer-term remuneration of our Executive Directors with strong performance, the implementation of the business strategy and the interests of our shareholders, but is not so stretching as to encourage excessive risk taking.

Overriding downwards discretion
If any year produces a return that the Committee believes is significantly worse than competitors and reflects poor management decisions, the Remuneration Committee will use its discretion to determine that no part (or a lesser part) of the RSS award accrued over the full three-year period shall vest.

The TSR target range for 2018 awards is:

- threshold – 8 per cent compound annual growth; and
- maximum – 12 per cent compound annual growth.

Absolute TSR will be measured over the full three-year performance period rather than looking at each year separately.

None of the award will vest if TSR is below threshold, 25 per cent of the award will vest at threshold, and 100 per cent of the award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

Shareholder consultation in respect of 2018 RSS awards
The Chairman of the Remuneration Committee consulted with a number of major shareholders before the Committee and Board approved these changes. The Board considers that these developments improve long-term alignment between Executive Directors and the Company's shareholders.

Award levels
2018 RSS award levels are as follows:

- CEO – shares to the value of $2,532,405 (being 300 per cent of salary)
- CFO – shares to the value of $1,594,010 (being 275 per cent of salary)

The number of shares awarded shall be determined based on the closing average share price for a period of five trading days immediately prior to the date of the award.

Post-vesting holding period
For RSS awards made in 2016 or subsequent years, Executive Directors are expected to hold vested RSS awards (or the resultant net of tax shares) which had a performance period of at least three years, for a further period of not less than two years following vesting.

Single figure on remuneration
The following table presents the Executive Directors' emoluments in U.S. dollars in respect of the years ended 31 December 2017 and 31 December 2016.

Executive Directors		Salary $	Pension $	Taxable Benefits[1] $	Annual Bonus[5,6] $	Long-Term Incentives (RSS)[2,3] $	Total[4] $
Alex Maloney[4], CEO	**2017**	**811,311**	**81,227**	**21,910**	**420,000**	**601,925**	**1,936,373**
	2016	810,266	81,027	20,127	1,825,627	1,063,364	3,800,411
Elaine Whelan[4], CFO	**2017**	**562,268**	**56,275**	**155,960**	**310,000**	**414,458**	**1,498,961**
	2016	547,423	54,636	114,445	1,253,598	880,831	2,850,933

(1) Benefits comprise Bermudian payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the CFO), but exclude UK National Insurance contributions.

(2) For 2017, the long-term incentive values are based on the 2015 RSS awards which vest at 22.5 per cent on 15 February 2018 and are based on a three-year performance period that ended on 31 December 2017. The values are based on the average share price for the last quarter of 2017 and include the value of dividends accrued on vested shares.

(3) For 2016, the long-term incentive values were based on the 2014 RSS awards which vested at 67.4 per cent on 16 February 2017 and were based on a three-year performance period that ended on 31 December 2016. The values are re-presented from the 2016 Annual Report and Accounts based on the share price at the vesting date, 16 February 2017, and include the value of dividends accrued on vested shares.

(4) Some amounts were paid in Sterling and converted at the average exchange rate of 1.2806 for the year as they are set in U.S. dollars.

(5) Bonus targets were set at the beginning of 2017 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance is based on absolute financial performance against the RFRoR. The Company financial performance component paid out at 0 per cent of target as the RoE was negative 5.9 per cent against a target level of RFRoR +8 per cent. The personal element of Executive Directors' bonus opportunity was the only bonus element to payout; however this element was also paid out at a modified rate considering the significant loss year experienced. Final bonus payout to Executive Directors will be 17 per cent of the maximum for the CEO and 18 per cent of the maximum for the CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 71 and 72. 25 per cent of Executive Directors' annual bonus is deferred into RSS awards without performance conditions, vesting at 33.3 per cent over a three-year period.

(6) Annual bonus figures for the Executive Directors for 2016 have been re-presented to reflect final relative performance data which was used to calculate the bonus figures and were finalised after all peer data was released in 2017, after the 2016 Directors' Remuneration Report was published. For 2016, the relative component had been provisionally stated to pay out at 50 per cent of the maximum, however after final results of all peers were released, this element paid out at 188 per cent of target (with final bonus payout being 76 per cent of the maximum for the CEO and CFO).

Non-Executive Directors' fees

Current Non-Executive Directors		Fee $	Other $	Total $
Peter Clarke[1]	**2017**	**350,000**	**–**	**350,000**
	2016	290,769	–	290,769
Michael Dawson[2]	**2017**	**175,000**	**–**	**175,000**
	2016	28,269	–	28,269
Simon Fraser[3]	**2017**	**175,000**	**80,000**	**255,000**
	2016	175,000	66,974	241,974
Samantha Hoe-Richardson[4]	**2017**	**175,000**	**64,500**	**239,500**
	2016	175,000	13,350	188,350
Robert Lusardi[5]	**2017**	**175,000**	**–**	**175,000**
	2016	84,808	–	84,808
Tom Milligan[6]	**2017**	**175,000**	**–**	**175,000**
	2016	175,000	–	175,000
Former Non-Executive Directors				
Emma Duncan[7]	**2017**	**–**	**–**	**–**
	2016	91,538	–	91,538
Martin Thomas[8]	**2017**	**–**	**–**	**–**
	2016	111,250	34,375	145,625

(1) Peter Clarke was appointed as a Non-Executive Director with effect from 9 June 2014 and as LHL Chairman with effect from 4 May 2016 and his 2016 fees were proportionally pro-rated for the year.
(2) Michael Dawson was appointed as a Non-Executive Director with effect from 3 November 2016 and his 2016 fees were proportionally pro-rated for the year.
(3) Simon Fraser was additionally appointed as a Non-Executive Director of CUL with effect from 29 February 2016 and his 2016 fees were proportionally pro-rated for the year.
(4) Samantha Hoe-Richardson was additionally appointed as a Non-Executive Director of LUK with effect from 18 October 2016 and her 2016 fees were proportionally pro-rated for the year.
(5) Robert Lusardi was appointed as a Non-Executive Director with effect from 8 July 2016 and his 2016 fees were proportionally pro-rated for the year.
(6) Tom Milligan was appointed as a Non-Executive Director with effect from 3 February 2015.
(7) Emma Duncan retired from the Board on 8 July 2016 and her 2016 fees were proportionally pro-rated for the year.
(8) Martin Thomas retired from the Board on 4 May 2016 and his 2016 fees were proportionally pro-rated for the year.

2018 annual bonus payments in respect of 2017 performance

As detailed in the Policy Report, each Executive Director participates in the annual bonus plan, under which performance is measured over a single financial year.

The target value of bonus was 150 per cent of salary for the CEO and CFO respectively, and the maximum payable was two times the target value. The RoE is negative 5.9 per cent.

Financial performance
75 per cent of the 2017 bonus was based on Company performance conditions and the extent to which these were achieved is as follows:

Performance Measure	Financial Performance Weighting (of total bonus) %	Threshold %	Target %	Max %	Actual performance %	% payout
Absolute RoE	75	RFRoR +6%	RFRoR +8%	RFRoR +14%	-5.9	0% of target payable in respect of Company performance

In 2017 there was a higher than average frequency and severity of material natural catastrophe losses which resulted in the Lancashire Group delivering the lowest financial return since its inception in 2005. Bonus targets were set at the beginning of 2017 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. The Company financial performance component did not payout at all (i.e. zero per cent of target) as RoE was negative 5.9 per cent against a target level of RFRoR +8 per cent and a threshold of RFRoR +6 per cent.

Personal performance
25 per cent of the 2017 bonus was based on performance against clearly defined personal objectives set at the start of the year.

The table below sets out a summary of the 2017 personal objectives for each Executive Director.

Executive Director	Personal Performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.

The personal targets were broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles and performance targets relating to areas of personal development.

During the 2017 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus payout for which each Executive Director was eligible; however this element was paid out at a modified rate considering the significant loss year experienced.

Notwithstanding the financial performance of the Group in what was a significant year for catastrophe loss activity (in this regard please see the strategy and performance sections on pages 12 to 41 of this Annual Report and Accounts) the Executive Directors each achieved a strong performance rating against their objectives, in particular in delivering an underwriting portfolio which operated in such a way as to moderate loss exposures through a combination of underwriting discipline and a carefully structured reinsurance programme. The leadership of the Executive Directors in delivering a team of employees with strong professional skills at all levels throughout the Group is considered by the Board to position the business well for the challenges and opportunities which lie ahead. For the 2017 performance against personal objectives, the ratings were determined following a process for the evaluation of performance of the Executive Directors against the agreed personal targets and discussion and agreement of the outcomes with the Chairman and members of the Board. The outcomes are expressed as a percentage of the maximum award as illustrated in the table below.

A table of performance measures and total 2017 bonus achievement is set out below:

Executive Director	Financial performance (max % of total bonus) %	Personal performance (max % of total bonus) %	Bonus % of maximum awarded %	Total bonus value[1] $	Value of bonus paid in cash (75 per cent of total bonus) $	Value of bonus deferred into RSS awards (25 per cent of total bonus)[1] $
Alex Maloney	75	25	17	420,000	315,000	105,000
Elaine Whelan	75	25	18	310,000	232,500	77,500

(1) 25 per cent of total bonus award will be deferred into RSS awards with one third vesting annually, each year, over a three-year period with the first third becoming exercisable in February 2019, subject to the Company not being in a closed period. These awards vest on the relevant dates subject to continued employment only.

Long-term share awards with performance periods ending in the year – 2015 RSS awards

The 2015 RSS awards were based on a three-year performance period ending on 31 December 2017 and vest following the determination of financial results by the Board. The tables below set out the achievement against the performance conditions attached to the award, resulting in aggregate vesting of 22.5 per cent, and the actual number of awards vesting (with their estimated value).

	TSR (relative to a comparator group of 11 companies) (relevant to 25% of the 2015 RSS awards)		Average annual RoE (over three years in excess of 13-week Treasury bill rate) (relevant to 75% of the 2015 RSS awards)	
Performance level	Performance required	% vesting	Performance required (%)	% vesting
Below threshold	Below median	0	Below 6	0
Threshold	Median	25	6	25
Stretch or above	Upper quartile or above	100	15 or above	100
Actual achieved	Below median	0	7.0	30.1

Details of the vesting for each Executive Director, based on the above, are shown in the table below:

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[2] $	Value of shares including dividend accrual[1] $
Alex Maloney	244,208	189,261	54,947	129,799	601,925
Elaine Whelan	168,149	130,315	37,834	89,373	414,458

(1) The value of the vested shares is based on the 2015 RSS awards which vest at 22.5 per cent on 15 February 2018 and are based on a three-year performance period that ended on 31 December 2017. The values are provisionally based on the average share price of the last quarter of 2017 (being $8.59 based on the exchange rate of 1.242). The values will be re-presented in 2018 with the value at the vesting date. The vested awards are subject to the clawback provision set out on page 64.

(2) Dividends accrue on awards at the record date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards net of tax required.

Scheme interests awarded during the year

The table below sets out the performance RSS awards that were granted as nil-cost options on 14 March 2017.

Executive Director	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] $	% vesting at threshold performance
Alex Maloney	14-Mar-2017	286,666	2,458,640	25
Elaine Whelan	14-Mar-2017	180,441	1,547,583	25

(1) The awards were based on the five-day average closing share price prior to the award date, being £7.02 (a share price of $8.57 based on the exchange rate of 1.2214) and the awards were granted as nil-cost options.

(2) These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2019 and become exercisable in the first open period following the release of the Company's 2019 year-end results after the meeting of the Board in February 2020.

(3) The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

Loss of office payments

There were no loss of office payments during the 2017 year.

Details of all outstanding share awards

In addition to awards made during the 2017 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

Performance and deferred bonus awards under the nil-cost option Restricted Share Scheme (RSS)

		Grant date[1]	Exercise price	Awards held at 1-Jan-17	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-17	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	19-Feb-14	–	124,333	–	**83,801**	**40,532**	**83,801**	–	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	9,810	–	**9,810**	–	**9,810**	–	
	Performance RSS[2,3]	12-Feb-15	–	244,208	–	–	–	–	**244,208**	31-Dec-17
	Deferred Bonus RSS[4]	20-Mar-15	–	27,953	–	**13,977**	–	**13,977**	**13,976**	
	Performance RSS[2,3]	18-Feb-16	–	219,254	–	–	–	–	**219,254**	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	56,224	–	**18,741**	–	**18,741**	**37,483**	
	Performance RSS[2,3]	14-Mar-17	–	–	**286,666**	–	–	–	**286,666**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	–	**53,215**	–	–	–	**53,215**	
Total				**681,782**	**339,881**	**126,329**	**40,532**	**126,329**	**854,802**	
Elaine Whelan, Group CFO & LICL CEO	Performance RSS[2,3]	19-Feb-14	–	102,989	–	**69,416**	**33,573**	**69,416**	–	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	7,986	–	**7,986**	–	**7,986**	–	
	Performance RSS[2,3]	12-Feb-15	–	168,149	–	–	–	–	**168,149**	31-Dec-17
	Deferred Bonus RSS[4]	20-Mar-15	–	19,693	–	**9,846**	–	**9,846**	**9,847**	
	Performance RSS[2,3]	18-Feb-16	–	157,104	–	–	–	–	**157,104**	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	38,607	–	**12,869**	–	**12,869**	**25,738**	
	Performance RSS[2,3]	14-Mar-17	–	–	**180,441**	–	–	–	**180,441**	31-Dec-19
	Deferred Bonus RSS[4]	14-Mar-17	–	–	**36,541**	–	–	–	**36,541**	
Total				**494,528**	**216,982**	**100,117**	**33,573**	**100,117**	**577,820**	

(1) The market values of the common shares on the dates of grant were:

- 19 February 2014 £7.34
- 5 March 2014 £7.26
- 12 February 2015 £6.36
- 20 March 2015 £6.30
- 18 February 2016 £6.17
- 11 March 2016 £5.37
- 14 March 2017 £7.02

(2) The vesting of the RSS performance awards above is subject to two performance conditions as follows:

- 25 per cent of each award is subject to a performance condition measuring the TSR performance of the Company against the TSR performance of a select group of comparator companies (see page 76 for a list of comparator companies for each grant year), over a three-year performance period. 25 per cent of this part of the award vests for median performance by the Company, rising to 100 per cent vesting of this part of the award for upper quartile performance by the Company or better (with proportionate vesting between these two points).
- The other 75 per cent of each award is subject to a performance condition based on average annual RoE over a three-year performance period. 25 per cent of this part of the award will vest if average annual RoE over the performance period exceeds the criteria set out in the table on page 75, whilst all of this part of the award will vest if the Company's average RoE is equal to the more stringent criteria set out in the table on page 75. Between these two points vesting will take place on a straight-line basis from 25 per cent to 100 per cent for RoE performance.

(3) The vesting dates of the RSS performance awards are subject to being out of a closed period and are as follows:

- 2014 – 16 February 2017;
- 2015 – 15 February 2018;
- 2016 – first open period following the release of the Company's 2018 year-end results; and
- 2017 – first open period following the release of the Company's 2019 year-end results.

(4) The vesting dates of the RSS Deferred Bonus awards are subject to being out of a closed period and, for the 2014 to 2017 Deferred Bonus awards, are as follows:

- 2014 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2014, 2015 and 2016;
- 2015 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2015, 2016 and 2017;
- 2016 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2016, 2017 and 2018; and
- 2017 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2017, 2018 and 2019.

Relative TSR targets for RSS (25 per cent weighting)

	2014	2015	2016	2017
100%	75th percentile	75th percentile	75th percentile	75th percentile
25%	= median	= median	= median	= median
Nil	< median	< median	< median	< median

RoE targets for RSS (75 per cent weighting)

	2014	2015	2016	2017*
100%	RFRoR +15%	RFRoR +15%	RFRoR +15%	13%
25%	RFRoR + 6%	RFRoR + 6%	RFRoR + 6%	6%
Nil	< RFRoR + 6%	< RFRoR + 6%	< RFRoR + 6%	< 6%

* Average annual growth in FCBVS plus accrued dividends.

Absolute TSR targets for RSS (15 per cent weighting)

	2018*
100%	12%
25%	8%
Nil	< 8%

Annual growth in FCBVS plus accrued dividends targets for RSS (85 per cent weighting)

	2018*
100%	13%
25%	6%
Nil	< 6%

* See page 69 and 70 for the vesting methodology to be applied for the 2018 RSS awards.

Historical Peer Group Data for 2017 and prior RSS awards (relative TSR element)

Peer Companies [11]	2014 awards	2015 awards	2016 awards	2017 awards
Amlin plc[1]	X	X	–	–
Arch Capital Group Limited[2, 4]	–	–	X	X
Argo Group International Holdings, Ltd.	X	X	X	X
Aspen Insurance Holdings Limited	X	X	X	X
Axis Capital Holdings Limited	X	X	X	X
Beazley plc	X	X	X	X
Catlin Group Ltd.[3]	X	–	–	–
Endurance Specialty Holdings Ltd.[4,7]	X	X	X	–
Everest Re Group, Ltd.[5]	–	X	X	X
The Hanover Insurance Group[6]	–	X	X	X
Hiscox Ltd.	X	X	X	X
Montpelier Re Holdings Ltd.[7]	X	–	–	–
Novae Group plc[8,9]	–	X	X	X
Renaissance Re Holdings Ltd.	X	X	X	X
Validus Holdings Ltd. [10]	X	X	X	X
XL Group Ltd[9]	–	X	X	X

(1) Mitsui Sumitomo Insurance Company acquired Amlin plc on 1 February 2016. Accordingly, the Committee decided to use Amlin plc as a comparator company up to 30 June 2015 and it was replaced with Everest Re Group, Ltd with effect from 1 July 2015.

(2) Arch Capital Group Limited was added to the peer group of companies with effect from 1 October 2016 as a replacement for Endurance Specialty Holdings Ltd.

(3) Catlin Group Ltd. was acquired by the XL Group Ltd. with effect from 1 May 2015 and so was used as a comparator company up to 31 December 2014 and was replaced by Novae Group plc.

(4) Sompo Holdings Inc. announced on 5 October 2016 that it intended to acquire Endurance Specialty Holdings Ltd. ('Endurance'). The transaction subsequently achieved shareholder approval. Accordingly, the Committee decided to use Arch Capital Group Limited as a comparator company with effect from 1 October 2016 as a replacement for Endurance.

(5) Everest Re Group, Ltd. was added to the peer group of companies with effect from 1 July 2015 as a replacement for Amlin plc.

(6) The Hanover Insurance Group was added to the peer group of companies with effect from 1 January 2015 as a replacement for Montpelier Re Holdings Ltd.

(7) Montpelier Re Holdings Ltd. was acquired by Endurance with effect from 31 July 2015 and so was used as a comparator company up to 31 December 2014 and was replaced by The Hanover Insurance Group.

(8) Novae Group plc was added to the peer group of companies with effect from 1 January 2015 as a replacement for Catlin Group Ltd.

(9) Novae Group plc was acquired by Axis Capital Holdings Limited with effect from 2 October 2017 and so was used as a comparator company up to 30 June 2017 and was replaced by XL Group Ltd as of 1 July 2017.

(10) American International Group, Inc. announced on 22 January 2018 that it is set to acquire Validus Holdings Ltd.; a replacement within the peer group of companies effective 1 January 2018 has not yet been identified but consideration of this has been initiated.

(11) For 2018 RSS awards the Board adopted a range of absolute TSR targets. See page 70 for further details.

Directors' shareholdings and share interests

Formal shareholding guidelines were first introduced in 2012 and have subsequently been modified. The guidelines require the CEO and CFO to build and maintain a shareholding in the Company worth two times annual salary as set out in the Policy Report.

Details of the Directors' interests in shares are shown in the table below.

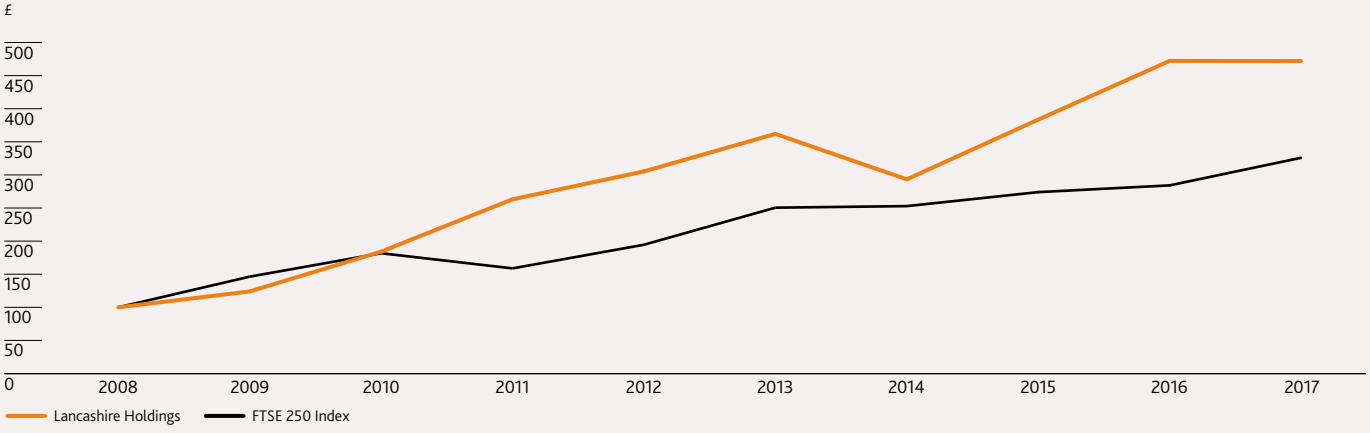
	Number of Common Shares						
	Total as at 1 January 2017	As at 31 December 2017					
Directors		Legally owned	Subject to deferral under the RSS	Subject to performance conditions under the RSS	Vested but unexercised awards under other share-based plans	Total	Shareholding guideline achieved?
Alex Maloney	1,195,294	**580,302**	**104,674**	**750,128**	**N/A**	**1,435,104**	**Yes**
Elaine Whelan	923,504	**524,370**	**72,126**	**505,694**	**N/A**	**1,102,190**	**Yes**
Peter Clarke	14,000	**44,000**	**N/A**	**N/A**	**N/A**	**44,000**	**N/A**
Michael Dawson	–	**7,200**	**N/A**	**N/A**	**N/A**	**7,200**	**N/A**
Simon Fraser	1,000	**1,000**	**N/A**	**N/A**	**N/A**	**1,000**	**N/A**
Samantha Hoe-Richardson	3,947	**3,947**	**N/A**	**N/A**	**N/A**	**3,947**	**N/A**
Robert Lusardi	3,000	**3,000**	**N/A**	**N/A**	**N/A**	**3,000**	**N/A**
Tom Milligan	1,000	**1,000**	**N/A**	**N/A**	**N/A**	**1,000**	**N/A**

Note: Share ownership interest equivalent is defined as wholly owned shares or the net of taxes value of RSS awards which have vested but are unexercised and the net of tax value of deferred bonus RSS awards. Shares include those owned by persons closely associated with the relevant Executive Director.

Performance graph

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index. The Company's common shares commenced trading on the main market of the LSE on 16 March 2009 and the Company joined the FTSE 250 Index on 22 June 2009 and is currently a constituent of this.

TOTAL SHAREHOLDER RETURN



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2017, of £100 invested in LHL on 31 December 2008 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Total Remuneration History for CEO

The table below sets out the total single figure remuneration for the CEOs over the last nine years with the annual bonus paid as a percentage of the maximum and the percentage of long-term share awards vesting in each year.

	2009	2010	2011	2012	2013	Richard Brindle 2014[1]	Alex Maloney 2014[2]	2015	2016	2017
Total remuneration ($000s)	7,244	9,945	9,623	10,460	10,175	10,072	2,405	3,853	3,800[4]	**1,936**
Annual bonus (%)	68	94	73	73	80	80	73	72	76[4]	**17**
LTI vesting (%)	N/A	99.6	100	99	100	61[3]	50	75	67	**22.5**

(1) Richard Brindle was the CEO from 2005 until he retired from the Group and as a Director on 30 April 2014.

(2) Alex Maloney was appointed CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.

(3) Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Group's 2014 Annual Report and Accounts.

(4) Alex Maloney's 2016 total remuneration and annual bonus percentage have been re-presented in the above table to reflect changes made after the publication of the 2016 Annual Report and Accounts. These changes are primarily due to the disclosed relative RoE performance which impacted his annual bonus figure for 2016 and the re-presentation of his LTI award vesting and dividend accrual value at the vesting date, as disclosed on page 70.

The table above shows the total remuneration figure for the former CEO during each of the relevant financial years; figures for the current CEO are shown since his appointment to the position on 1 May 2014. The total remuneration figure includes the annual bonus and LTI awards which vested based on performance in those years. The annual bonus and LTI percentages show the payout for each year as a percentage of the maximum.

Percentage change in CEO remuneration

The following table sets out the percentage change in the aggregate value of salary, benefits and bonus for the CEO from the preceding year and the average percentage change in respect of the employees of the Group taken as a whole.

	Year-on-year change CEO[2] %	Average year-on-year change employees[1,3] %
Base salary	0	8
Benefits	2	8
Bonus	(77)	(79)

(1) Employee numbers were calculated on a per permanent employee headcount basis for the years ending 31 December 2017 and 31 December 2016, adjusted for any joiners and leavers during this period.

(2) The underlying salary increase from 2016 to 2017 for the CEO was 3 per cent. However some amounts were paid in Sterling and converted at the average exchange rate of 1.2806 for the year, which has resulted in the overall 0 per cent base salary year-on-year change above.

(3) The underlying salary increase from 2016 to 2017 for Group employees was 3 per cent. The 8 per cent increase reflects staff promotions and other adjustments made during the year.

Relative importance of the spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in the year ended 31 December 2017 compared with the year ended 31 December 2016.

	2017 $m	2016 $m	Percentage change %
Employee remuneration costs	**39.8**	72.1	(45)
Dividends	**29.9**	178.9	(83)

Committee members, attendees and advice

For Remuneration Committee membership and attendance at meetings through 2017, please refer to page 59 of this Annual Report and Accounts. The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website. These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

Remuneration Committee adviser

The Remuneration Committee is advised by NBS, a trading name of Aon Hewitt, being a subsidiary of Aon plc. NBS was appointed by the Remuneration Committee in 2007. NBS has discussions with the Remuneration Committee Chairman regularly on Committee process and topics which are of particular relevance to the Company.

Aon Benfield (which is part of Aon but is a separate business division from Aon Hewitt) provides reinsurance broking services to the Group.

The primary role of NBS is to provide independent and objective advice and support to the Committee's Chairman and members. In order to manage any possible conflict of interest, NBS operates as a distinct business within the Aon Group and there is a robust separation between the business activities and management of NBS and all other parts of Aon Hewitt and the wider Aon Group. The Committee is satisfied that the advice that it receives is objective and independent. NBS is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to NBS in respect of its services to the Committee for the year ended 31 December 2017 were $68,072 (2016 – $159,473). Fees are predominantly charged on a 'time spent' basis.

Engagement with shareholders

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below along with the votes to approve the 2017 Remuneration Policy which have been stated below; any matters discussed with shareholders during the year are provided in the Implementation of Remuneration Policy for 2018 section of the report starting on page 68.

	Vote to approve 2016 Annual Report on Remuneration		Vote to approve 2017-2019 Remuneration Policy	
	Total number of votes	**% of votes cast**	Total number of votes	% of votes cast
For	**143,579,559**	**94.6**	144,229,951	94.8
Against	**8,228,480**	**5.4**	7,870,777	5.2
Total	**151,808,039**	**100.0**	152,100,728	100.0
Abstentions	**9,418,682**		9,125,993	

Approved by the Board of Directors and signed on behalf of the Board.

Simon Fraser
Chairman of the Remuneration Committee

14 February 2018

Overview of the Group

Lancashire Holdings Limited is a Bermuda incorporated company (Registered Company No. 37415) with operating subsidiaries in Bermuda and London, and two Syndicates at Lloyd's.

The Company's common shares were admitted to trading on AIM in December 2005 and were subsequently moved up to the Official List and to trading on the main market of the LSE on 16 March 2009. The shares have been included in the FTSE 250 Index since 22 June 2009.

Principal activities

The Company's principal activity, through its wholly owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, an established Lloyd's insurance group, and in June 2013 established Kinesis, a third party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the Business Review on pages 24 to 30.

Dividends

For the year ended 31 December 2017, the following dividends were declared:

- an interim dividend of $0.05 per common share was declared on 26 July 2017 and paid on 6 September 2017 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2965 or £0.0386 per common share; and
- a final dividend of $0.10 per common share was declared on 14 February 2018 to be paid on 21 March 2018 in pounds sterling at the pound/U.S. dollar exchange rate on the record date of 23 February 2018 or approximately £0.07 per common share.

Dividend policy

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) dividend, supplemented by special dividends from time to time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

Current Directors

- Peter Clarke (Non-Executive Chairman)
- Michael Dawson (Non-Executive Director)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Robert Lusardi (Non-Executive Director)
- Alex Maloney (Chief Executive Officer)
- Tom Milligan (Non-Executive Director)
- Elaine Whelan (Chief Financial Officer)

Directors' interests

The Directors' beneficial interests in the Company's common shares as at 31 December 2017 and 2016 including interests held by family members were as follows:

Directors	Common shares held as at 31 December 2017	Common shares held as at 31 December 2016
Peter Clarke[1]	**44,000**	14,000
Michael Dawson[2]	**7,200**	–
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**3,947**	3,947
Robert Lusardi	**3,000**	3,000
Alex Maloney[3]	**580,302**	513,512
Tom Milligan	**1,000**	1,000
Elaine Whelan[4]	**524,370**	428,976

There have been no changes in Directors' shareholdings between the end of the financial year and the date of this Report.

(1) Peter Clarke conducted the following transactions in the Company's shares during 2017:
- 2 November – purchase of 30,000 shares at a price of £7.46 costing £223,791.

(2) Michael Dawson conducted the following transactions in the Company's shares during 2017:
- 28 February – purchase of 7,200 shares at a price of £6.93 costing £49,896.

(3) Includes 100,000 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2017:
- 29 March – exercise of 83,801 RSS awards and 42,528 deferred bonus RSS awards and related sale of 59,539 shares to cover tax liabilities, at a price of £6.72 realising £400,310.

(4) Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2017:
- 27 February – exercise of 69,416 RSS awards and 30,701 deferred bonus RSS awards and related sale of 4,723 shares to cover tax liabilities, at a price of £6.90 realising £32,606.

Transactions in own shares

The Company did not repurchase any of its own common shares during 2017 or 2016.

The Group's current repurchase programme has 20,134,191 common shares remaining to be purchased as at 31 December 2017 (approximately $172.7 million at the 31 December 2017 share price). The purpose of the Company's repurchase programme is to acquire shares to use in the future towards satisfying its obligations under its RSS awards. Further details of the share repurchase authority and programme are set out in note 18 to the consolidated financial statements on page 147. The repurchase programme is subject to renewal at the 2018 AGM in an amount of up to 10 per cent of the then issued common share capital.

Directors' remuneration

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 60 to 79.

Substantial shareholders

As at 14 February 2018, the Company was aware of the following interests of 3 per cent or more in the Company's issued share capital:

Name	Number of shares as at 14 February 2018	% of shares in issue
Invesco Limited	36,515,214	18.1
Setanta Asset Management Limited	18,023,741	9.0
Wellington Management	11,359,428	5.6
Dimensional Fund Advisors LP	9,501,507	4.7
Frank W. Cawood	9,302,300	4.6
Franklin Mutual Advisers, LLC	7,639,246	3.8
The Vanguard Group, Inc	7,397,922	3.7
BlackRock, Inc.	6,990,810	3.5
Troy Asset Management Limited	6,864,893	3.4

Corporate governance – compliance statement

The Company's compliance with the Code is summarised in the Corporate Governance section of this Annual Report and Accounts on pages 47 to 49.

The Company confirms, in accordance with the principle of 'comply or explain', that the Board considers that the Company has complied with the principles and provisions as set out in the Code throughout the year ended 31 December 2017. With regard to the diversity policy for the Group and its implementation please see the report of the Nomination and Corporate Governance Committee, specifically page 56.

Donations

In June 2017 the Company made a cash donation of $702,358 to the Lancashire Foundation.

The Foundation owns 330,713 common shares in the Company and during the 2017 calendar year received dividends of £39,090 declared on those shares.

Lancashire established the Lancashire Foundation as a Bermuda charitable trust in 2007, with the aim of creating a trust for the benefit of charitable causes in Bermuda, the UK and worldwide. During 2012, the assets of the Lancashire Foundation were transferred to the Lancashire Foundation charitable trust established in England and Wales and registered with the Charity Commission. The Lancashire Foundation's trustees are two senior employees and a subsidiary Non-Executive Director. The Trustees make donations following recommendations made by the Company's Donations Committee consisting of some of the Group's employees.

A summary of the work of the Lancashire Foundation during 2017 can be found in the Corporate Responsibility section on pages 36 to 41.

The Group did not make any political donations or expenditure during 2017 or 2016.

Health and safety

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

Greenhouse gas emissions

The Group's greenhouse gas emissions are detailed in the Corporate Responsibility section on page 39.

Employees

The Group is an equal opportunity employer, and does not tolerate unfair discrimination, bullying or harassment of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other policies, including labour standards, working conditions and benefits, are available to all employees in the staff handbook, which is available on the Group's intranet and provided to all new staff during their induction.

Creditor payment policy

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

Financial instruments and risk exposures

Information regarding the Group's risk exposures is included in the ERM report on pages 31 to 33 and in the risk disclosures section on pages 100 to 125 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 114 to 116.

Accounting standards

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.

Annual General Meeting

The notice of the 2018 AGM, to be held on 2 May 2018 at the Company's head office, 29th Floor, 20 Fenchurch Street, London EC3M 3BY, UK, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The notice of the AGM is also available on the Company's website.

Electronic and web communications

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

Going concern and viability statement

The Business Review section on pages 24 to 30 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 34 and 35. Starting on page 100, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements via a detailed three-year business plan considered by the Board at the November and February meetings. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's 2018 ORSA report. The three-year strategic plan was last approved by the Board in July 2017 and the detailed business plan was approved by the Board at the November 2017 meeting. The Board receives quarterly reports from the Group CRO and sets, approves and monitors risk tolerances for the business. The Board will receive the Group's 2018 ORSA report during the first quarter 2018 for review and challenge.

During 2017, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of scenarios and the impact on capital (on both an IFRS and Solvency II basis) evaluated. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2020, being the period considered under the Group's current three-year business plan and the Group's 2018 ORSA report.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

Auditors

Resolutions will be proposed at the Company's 2018 AGM to re-appoint KPMG LLP as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board.

Christopher Head
Company Secretary

14 February 2018

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. The consolidated financial statements have been prepared in accordance with IFRS. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, U.S. GAAP is considered. Further detail on the basis of preparation is described in the consolidated financial statements. In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

1. the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
2. the Board considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
3. the Strategy and the Business Review sections of this Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

14 February 2018