GOOD GOVERNANCE AND *A POSITIVE CULTURE*

PETER CLARKE
Non-Executive Chairman

Governance, when done well, helps facilitate clear communication, constructive challenge and debate and creative strategic decision making. It cultivates a positive, open and balanced culture throughout our business.

In my opening statement I discussed those areas in which our business and Board addressed the challenges of 2016 within the context of our strategic objectives. The following section focuses on the formal work carried out by the Board and its Committees in exercising effective oversight, taking decisions and providing support and constructive challenge to the business.

How does the Board set and monitor the governance objectives for the Group?

By virtue of its premium listing 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, and in this corporate governance section and throughout this Annual Report and Accounts for the 2016 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 Bermuda law and regulations. In 2016 the PRA became the Group supervisor in accordance with the requirements of the UK's Solvency II regime.

I am pleased to be able to report that there are no areas of material non-compliance with the Code. As a Board and business we seek to use the formal consideration of governance and regulatory requirements not merely as a 'box ticking' exercise, but as useful tools for the structuring of agendas and the consideration of matters of risk and opportunity that are of real commercial and strategic benefit to the Group.

Is the Board effective in shaping a positive corporate culture?

Lancashire strives to implement simple yet effective systems of corporate governance in a way that helps shape strategy, monitors its implementation, balances support and challenge for management and the business and embeds a positive and open corporate culture throughout the Group.

Good strategic debate and decision-making remain central to the work of any board. At Lancashire we are fortunate in having a nimble strategy and a simple 'flat' structure with a total employee headcount at 31 December 2016 of 198. This means that all our Directors have regular opportunities to meet with both the members of our management team and other employees within the business. That helps inform our Board's active understanding of the business, its needs and challenges.

Further to the requirements of Solvency II, UK regulated insurers are required to prepare an ORSA report. Both the management team and the Board have engaged fully with the ORSA process, and use it as a tool to help deepen our understanding of our business, better understand the risks and opportunities facing it and to refine and focus Lancashire's strategic thinking and priorities.

During 2016 our Board once again used the services of Lintstock Limited (a third-party provider of board evaluation services) in facilitating a review of the effectiveness of our Board, its Committees and our Directors. A summary report was discussed by the full Board and I am pleased to report the conclusion that the Board and each of its Committees are considered to have a balance of skills and perspectives that serve the Group effectively and enable them to meet the challenges of the business. As a Board we have also gained useful insights and identified various areas for training and learning during the coming year. I would like to thank all of our Directors for their hard work during the year.

What changes have there been to the Board and governance teams during 2016?

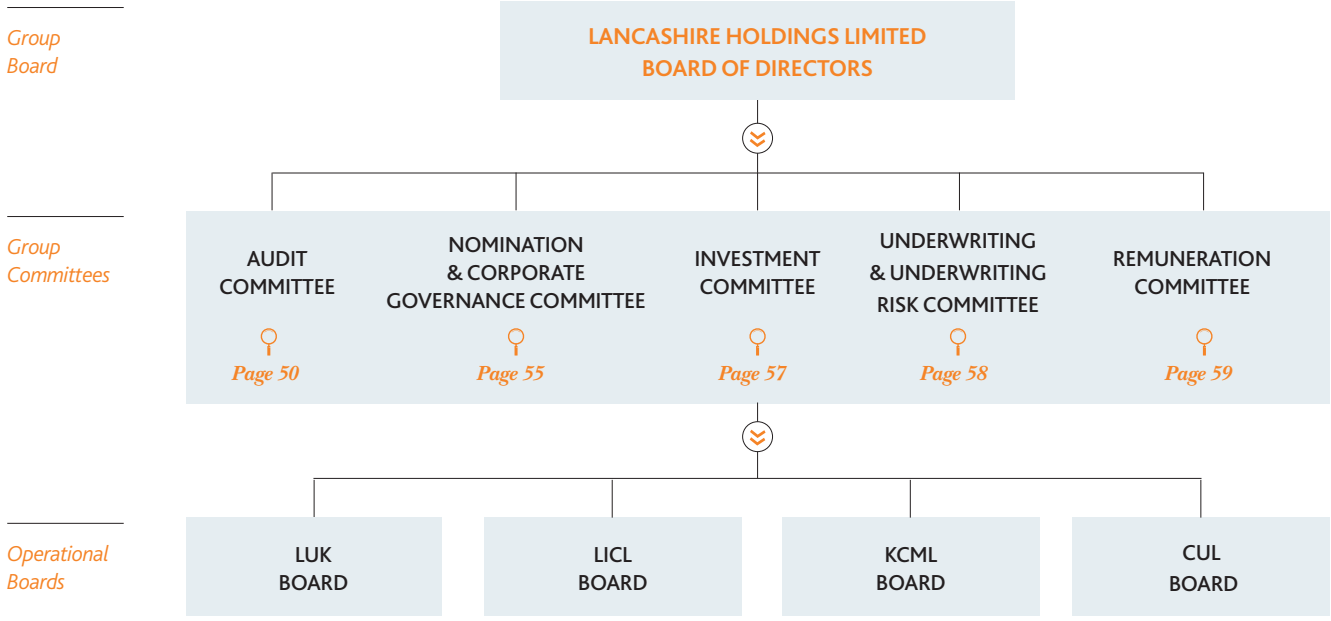
At our AGM in 2016 I became LHL Chairman in planned succession to Martin Thomas. Martin had served in that role since 2006, soon after the Company's formation. In July 2016 Emma Duncan stepped down as a Non-Executive Director after six years' service on the Board. Both Martin and Emma have contributed to Lancashire's success as a respected international specialty insurer and reinsurer and an established member of the FTSE 250 with a track record of generating superior returns for its investors. Our good wishes and thanks go to them. We have also been fortunate to have recruited Robert Lusardi and Michael Dawson to our Board. They bring a wealth of underwriting and insurance industry experience to our Board.

On our subsidiary boards, 2016 witnessed a changing of the guard at CUL. Tony South (the CUL Chairman), Robin Oakes and Elvin Patrick have left the CUL Board after many years' service and we were delighted to welcome Nick Davenport and Lance Gibbins as new independent Non-Executive Directors of CUL. Simon Fraser, the Group's Senior Independent Non-Executive Director, also joined the CUL Board. In February 2017, Nick will assume the role of CUL Chairman from Tony Minns, who has decided to step down having served as a CUL Non-Executive Director for many years, and latterly as CUL Chairman.

Following Martin's departure, Steve Smart assumed the Chairmanship on the LUK Board and we also welcome Adrian Colosso as a valued member of that Board. Samantha Hoe-Richardson, Chairman of the Group's Audit Committee, also joined the LUK Board as a Non-Executive Director.

Peter Clarke
Non-Executive Chairman

OUR GOVERNANCE STRUCTURE



A WELL-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 the National Teaching Awards Trust 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 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 chairs the Remuneration Committee and sits on the 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, who since 2014 has been Chairman of the Audit Committee, is Head of Environment and Sustainability for Network Rail. Prior to this, she was Head of Environment for Anglo American plc, one of the world's leading mining and natural resources companies. She was also a director 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. 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. and worked in both London and Bermuda as an insurance intermediary and underwriter. In 2005, Mr Milligan joined Goldman Sachs Group Inc. to start the GS Reinsurance Group's non-life activities. As a Managing Director of Goldman Sachs, Mr Milligan served as Chief Underwriting Officer of Arrow Capital Re in Bermuda, before starting Goldman Sachs-owned Lloyd's Syndicate 1910 in 2008 and 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. 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

- In light of Martin Thomas's planned retirement as a Director and Chairman of the Board at the conclusion of the 2016 AGM, the Board decided to appoint Peter Clarke as his successor. The Board approved the appointment of Simon Fraser as a Non-Executive Director of CUL.
- The Board reviewed and approved the Group's 2016 business plan that had been updated in light of the 1 January renewals and then current market conditions.
- 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 2015.
- The Board reviewed the Group's 2016 framework for executive remuneration.
- The Board approved the Group's Annual Report on Remuneration, as set out in the second part of the Directors' Remuneration Report for the year ended 31 December 2015, for presentation to shareholders for approval at the 2016 AGM.
- The Board approved the Annual Report and Accounts 2015.

APRIL / Q2 MEETING

- The Board approved the Solvency II opening submissions as at 1 January 2016 for submission to the PRA.
- The Board reviewed and adopted the Group's 2016 investment strategy.
- The Board received an annual investor relations presentation from the Group's corporate brokers.
- The Company's 2016 AGM was held at its Head Office on 4 May 2016. All resolutions were duly passed.

JUNE / BOARD STRATEGY DAY

- The objective of the 2016 strategy day was to consider the key decisions to be made in the preparation of the Group's three-year strategic plan. The agenda for the day included:
  - review of the current strategy, including the underwriting, investment and capital management strategies;
  - a presentation on the London and International specialty and reinsurance markets;
  - consideration of the business's resourcing and training needs;
  - review of the emerging and strategic risks identified during the past 12 months; and
  - discussion of the strategic themes and options for the business.

JULY / Q3 MEETING

- The Board approved the appointment of Robert Lusardi as a Non-Executive Director and acknowledged the retirement of Emma Duncan.
- The Board approved the Group's 2016 reforecast business plan in light of market conditions and expectations following the 1 July renewals and actual experience to 30 June.
- The Board declared an interim dividend of $0.05 per common share.
- The Board approved and adopted the Group's three-year strategic plan, including the Group's risk, and capital and solvency appetites.
- The Board approved and adopted the three-year strategy and business plan for the Cathedral group of companies.
- The Board approved and adopted the Company's ERM strategic objectives and plan.
- The Board received and approved a recommendation from the Audit Committee that a recommendation be made to shareholders for approval at the 2017 AGM to appoint KPMG as the Company's external auditors.
- The Board approved and adopted a Group-Wide Share Dealing Policy and a revised Group Share Dealing Code following the implementation of the Market Abuse Regulation in July 2016.
- The Board approved and adopted an updated division of responsibilities between the Chairman and the CEO together with an updated statement on the representation of women on the Board, on executive committees and in senior management, which is published on the Group's website.
- The Board approved amendments to the Group's investment portfolio guidelines.
- The Board approved the change of the Group's corporate brokers to Morgan Stanley and received a presentation from their team on the current market conditions and outlook, particularly in light of the Brexit vote.

NOVEMBER / Q4 MEETING

- The Board declared a special dividend for 2016 of $0.75 per common share.
- The Board approved and adopted the Group's 2017 business plan.
- The Board approved the appointment of Michael Dawson as a Non-Executive Director.
- The Board approved and adopted the Group's updated succession plan.
- The annual performance evaluation of the Board and its Committees and individual Directors was commissioned, to be facilitated by Lintstock Limited.
- The Board approved the appointment of Samantha Hoe-Richardson as a Non-Executive Director of LUK.

DECEMBER

- The Board approved the Group ORSA report for submission to the PRA.

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 on the Company's website at www.lancashiregroup.com.

The Board has approved and adopted an updated 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, capital management, internal audit, risk, 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 strategy day was held in June 2016.

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 15 February 2017, 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.

During 2016 the Board noted Alex Maloney's acquisition of an interest in a Lloyd's Nameco (further details of which are set out on page 154), and the resultant alignment with the Names on Syndicate 2010.

In accordance with the provisions of the Code, all the Directors of the Company are submitting themselves for re-election at the 2017 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 list, 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, composition, supporting processes and management of the Group, as well as to review each Director's performance, training and development needs. The 2014 performance evaluation was conducted internally, whilst in 2015 and 2016 the evaluations were facilitated by Lintstock Limited, a London-based corporate advisory firm with no other connection to the Group.

The 2016 evaluation process involved each Director as well as the Company Secretary, the Group CRO and the Group General Counsel completing a confidential online questionnaire designed by Lintstock and with input from the LHL Chairman and the Chairmen of each of the relevant Committees. Responses to the completed questionnaires were collated by Lintstock, who then prepared a suite of summary reports that were discussed in draft with the Chairman before being distributed to each of the Directors.

In February 2017, the Lintstock 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.

In summary, in the Board's consideration of the 2016 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.

The evaluation process proved a useful learning exercise. Amongst the principal themes identified, the Board considered the attributes required in future Non-Executive appointments, and agreed on the need to ensure sufficient time for the discussion and exploration of strategy and to continue to develop the understanding of the views of shareholders. A number of areas in which 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 2017.

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 2016. The discussion and feedback was extremely positive regarding all aspects of the Chairman's performance. Particular mention was made of the time he spends with the business 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.

At the end of the year, the Chairman met with the CEO, and the CEO met with the CFO, to conduct a performance appraisal in respect of 2016 and to set targets for 2017. 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 61.

	Original date of appointment to Board	Board	Audit Committee	Nomination and Corporate Governance Committee	Investment Committee	Underwriting and Underwriting Risk Committee	Remuneration Committee
Non-Executive Directors							
Peter Clarke[1]	9 June 2014	5/5	2/2	2/2	4/4	–	4/4
Michael Dawson	3 November 2016	1/1	–	0/0	–	0/0	0/0
Simon Fraser	5 November 2013	5/5	5/5	–	–	–	4/4
Samantha Hoe-Richardson[2]	20 February 2013	5/5	5/5	4/4	–	–	2/2
Robert Lusardi	8 July 2016	3/3	2/2	–	2/2	–	2/2
Tom Milligan[3]	3 February 2015	5/5	1/1	2/2	4/4	4/4	–
Executive Directors							
Alex Maloney	5 November 2010	5/5	–	–	–	4/4	–
Elaine Whelan	1 January 2013	5/5	–	–	4/4	–	–

(1) Peter Clarke resigned as a member of the Audit Committee, and was appointed as Chairman and a member of the Nomination and Corporate Governance Committee, with effect from his appointment as Chairman of the Board on 4 May 2016.
(2) Samantha Hoe-Richardson served as a member of the Remuneration Committee from 4 May 2016 to 3 November 2016.
(3) Tom Milligan served as a member of the Audit Committee from 4 May 2016 to 8 July 2016. He was appointed as a member of the Nomination and Corporate Governance Committee with effect from 8 July 2016.

RELATIONS WITH SHAREHOLDERS

During 2016, the Group's Head of Investor Relations, usually accompanied by one or more of the CEO, the CUO, the 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.

Conference calls with shareholders and analysts hosted by senior management are held quarterly following the announcement of the Group's quarterly financial results. The CEO, CUO and 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 2017 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 monitoring and ensuring compliance with those risk tolerances. During 2016, the Board carried out a robust assessment of the principal risks affecting the Group's business model, future performance, solvency and liquidity.

Further discussion of the risks affecting the Group and the policies in place to manage them can be found in the risk disclosures section on pages 101 to 128.

Each of the Committees is responsible for various elements of risk. The 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 CRO provides regular reports to the Group and subsidiary Boards covering, amongst other things, actual risk levels against tolerances, emerging risks and any lessons learned from risk events. During 2016 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 Group ORSA and solvency and risk regulatory reporting requirements. 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 is a major responsibility assigned to the CRO. The CRO's remuneration is subject to annual review by the Remuneration Committee.

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 (www.lancashiregroup.com). The Committees' Terms of Reference were reviewed by the Board during 2016 and were considered to be in line with current best practice. The Committees are generally scheduled to meet quarterly, although additional meetings are arranged as business requirements dictate. The composition of the Committees as at 31 December 2016 was as set out in the table appearing above. A report from each of the Committees is set out from page 50 to page 60.

AUDIT *COMMITTEE*

SAMANTHA HOE-RICHARDSON
Chairman of the Audit Committee

'The essential features of the Audit Committee's relationship with the Board, with the executive management and with internal and external auditors are a frank, open working relationship and a high level of mutual respect.'
(FRC – Guidance on Audit Committees)

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)	5/5
Peter Clarke[1]	2/2
Simon Fraser	5/5
Robert Lusardi[2]	2/2
Tom Milligan[3]	1/1

(1) Peter Clarke resigned as a member of the Audit Committee with effect from his appointment as Chairman of the Board on 4 May 2016.
(2) Robert Lusardi was appointed as a member of the Audit Committee with effect from 8 July 2016.
(3) Tom Milligan served as a member of the Audit Committee from 4 May 2016 to 8 July 2016.

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Monitors the integrity of the Group's consolidated financial statements and any other formal announcement relating to the Group's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the financial statements.
- 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.
- Monitors developments in the Solvency II regulatory regime.
- Oversees the relationship with the Group's external auditors and is responsible for assessing annually their independence and objectivity, taking into account the relevant professional and regulatory requirements.
- 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.
- Monitors and reviews the effectiveness of the Group's Internal Audit function in the context of the Group's overall risk management system.
- Reviews the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems (including financial, operational and compliance controls).
- Reviews for adequacy and security the Group's 'whistleblowing' arrangements, procedures for detecting fraud and systems and controls for the prevention of bribery and money laundering.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2016

FINANCIAL REPORTING

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors the integrity of the Group's consolidated financial statements and any other formal announcement relating to the Group's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the financial statements.	At each quarterly meeting the Committee reviews the Company's quarterly financial statements for the purposes of recommending their approval by the Board. The Committee also monitors the activities of the Company's Disclosure Committee and reviews the Company'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; and – loss reserving (see page 143 for further details). An annual paper is also presented to the Committee that details the areas of judgement or estimation in the financial statements (see accounting policies page 95 for the details of these areas). The Committee also considers quarterly reports on the financial statements from the external auditors, including an interim review results report and a year-end audit results report. These are discussed with the external auditors at the Committee's meetings. Of the areas of judgement or estimation considered by the Committee in 2016, those that were considered significant were loss reserving and the valuation of intangible assets. These are explained in further detail on page 54. In accordance with auditing guidance, the external auditors' report includes revenue recognition through the estimation of premium revenues as an area of risk. The Audit Committee considered this and concluded that for Lancashire revenue recognition is straightforward and low risk. While 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.	The Chairman of the Committee reviews early drafts of the Annual Report and Accounts to keep appraised of its key themes and messages and to raise any issues early in the process. The Committee reviewed the 2016 Annual Report and Accounts at the February 2017 Audit Committee meeting and advised the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

SOLVENCY II

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors developments in the Solvency II regulatory regime.	A quarterly report was provided during 2016 to the Committee by the CRO detailing the Group's Solvency II activities and how the Group was meeting the requirements of the new regime. The comprehensive training programme to ensure that all Board members are able to discharge their Solvency II responsibilities was continued through 2016 and will be sustained in 2017.

EXTERNAL AUDIT	
COMMITTEE RESPONSIBILITY	**COMMITTEE ACTIVITIES**
Oversees the relationship with the Group's external auditors and is responsible for assessing annually their independence and objectivity, taking into account the relevant professional and regulatory requirements, specifically including: – An annual assessment of the qualifications, expertise and resources of the external auditors and the effectiveness of the external audit process.	The Committee reviews reports from the external auditors at each quarterly Committee meeting including the annual audit plan and an ongoing assessment of the effective performance of the audit compared to the plan. The Committee Chairman conducts informal meetings with the auditors and the CFO prior to, during, and after the quarterly results. The Committee meets in executive session with the external auditors without management present to discuss any particular concerns or sensitivities about the audit process, and with management without the external auditors present to obtain feedback on the audit process. During 2016, an assessment of the effectiveness of the external audit process was led by the Committee Chairman with input from the Company's senior management and the external auditors. The review enabled the Audit Committee to determine that the external audit process was effective and to note some minor development areas for future audits.
– The implementation of a policy on the supply of non-audit services to ensure that the provision of non-audit services by the external auditors does not impair their independence and objectivity.	The Committee has approved and adopted a non-audit services policy that is reviewed on an annual basis and was last updated in October 2016. The policy, which stipulates rules around approvals required for various types of non-audit services, can be found on the Company's website. During 2016, EY provided non-audit services in relation to UK taxation. Fees for non-audit services provided in 2016 totalled $0.1 million representing 3.7 per cent of total fees paid to EY. 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 would not affect the independence and objectivity of EY 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 Company's external auditors.	It was disclosed in the Annual Report and Accounts 2015 that the contract for the provision of external audit services commencing in the financial year 2017 would be put out to tender during 2016 and a recommendation would be made to shareholders at the 2017 AGM. Details of the external audit tender process and the results thereof are disclosed on page 54.

INTERNAL AUDIT

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors and reviews the effectiveness of the Group's Internal Audit function in the context of the Group's overall risk management system.	The Group's Internal Audit function reports directly to the Committee. Each year the Head of Internal Audit presents an audit plan to the Committee for consideration and approval. The highest rated Lancashire and Kinesis risks are considered for audit annually, moderate risks every two years and the lowest risks every three years. The highest rated Cathedral risks are considered for audit biannually, moderate risks every three years and the lowest risks every four years. The findings of each internal audit are reported to the Committee at the quarterly meetings. The Committee has a responsibility to ensure the timely implementation of agreed management actions and to review the status of these at its meetings. The Committee meets in executive session with the Head of Internal Audit on at least an annual basis. During 2016, the Committee reviewed and approved an updated Internal Audit Charter. This can be viewed on the Company's website. An assessment of the effectiveness of the Internal Audit function was conducted by the CRO, with a report issued to the Committee. The Committee discussed the report and its findings with the CRO and the Head of Internal Audit and noted that no significant issues were raised. The Committee concluded that the Internal Audit function is operating effectively and efficiently in the context of the Group's overall risk management system, and is adequately resourced.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Reviews the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems (including financial, operational and compliance controls).	The Board has ultimate responsibility for maintaining a robust framework of internal controls and risk management and for overseeing and ensuring the effectiveness of the Group's risk management and internal control systems, and has delegated the monitoring and review of this framework to the Committee. The system of internal control 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 an annual paper detailing the effectiveness of the Company's internal controls, which is reviewed and discussed by the Committee. This paper covers all material controls including financial, operating and compliance controls. In 2016, the Committee was satisfied that the Company's internal control framework was operating effectively.
Reviews for adequacy and security the Group's 'whistleblowing' arrangements, procedures for detecting fraud and systems and controls for the prevention of bribery and money laundering.	During 2016, the Committee reviewed and recommended the adoption by the Board of updated policies and procedures for anti-money laundering, bribery and financial crime, conflicts of interest and whistleblowing. The Committee regularly reviews the Company's procedures for detecting fraud. There were no instances of whistleblower reporting or financial crime recorded during the year. The Committee also keeps under review the adequacy and effectiveness of the Company's legal and compliance function.

EXTERNAL AUDIT TENDER PROCESS

It was disclosed to shareholders in the Annual Report and Accounts 2015 that a competitive external audit tender process would be undertaken during 2016. EY have been the Group's external auditors since the Group's formation in 2005 and the provision of external audit services has not been subject to a tender since then. Angus Millar has been the lead audit partner since 2012.

EY was amongst the firms that were invited to participate in the external audit tender process, which was as follows:

- The Audit Committee approved a detailed project plan and approach.
- After an initial high level consideration of seven firms, including three mid-tier organisations, the process was narrowed down to three firms. It was considered that none of the mid-tier firms had the breadth of insurance expertise necessary across the UK and Bermuda to be considered further.
- A formal invitation to tender letter and request for information questionnaire ('RIQ') was sent to the three firms.
- Following meetings with management and the Chairman of the Audit Committee and scoring of the RIQ responses, the Audit Committee agreed to reduce the number of firms to two for the final part of the process. These firms were issued with a request for proposal ('RFP').
- Both firms had meetings with members of the Audit Committee and various members of the Group's management and were scored across a number of requirements.
- Responses to the RFPs were received from the tendering firms, and also scored.
- Presentations were made by the tendering firms to the selection panel, which included members of the Audit Committee.
- Following the presentations and a review of the firms' scores a decision was made by the Audit Committee to recommend to the Board the appointment of KPMG as external auditors.
- The Board of Directors discussed the recommendation and approved the proposal to recommend the appointment of KPMG by shareholders at the 2017 AGM.

2016 AREAS FOR FOCUSED INQUIRIES

In addition to the regular cycle of activities, the Audit Committee also initiated a number of focused inquiries into specific areas during the year. A specialist from the Group senior management team was invited to present a topic to the Committee to increase the Committee's understanding and facilitate discussion and challenge within specific areas. During 2016 areas covered were:

- Review of the Group's IT architecture and key risks and controls.
- The application of judgements within the loss reserving process.
- A review of manual intervention in finance processes.

SIGNIFICANT AREAS OF JUDGEMENT OR ESTIMATION

LOSS RESERVES AND EXPENSES

As detailed on pages 143 to 145 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. EY conduct a high level review of the Group's loss reserves as part of their first and third quarter review procedures. The Reserving Actuary, independent actuary and EY present a comparison of Lancashire's reserves to their own best estimates at the second and fourth quarter Audit Committee meetings. During 2016, 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

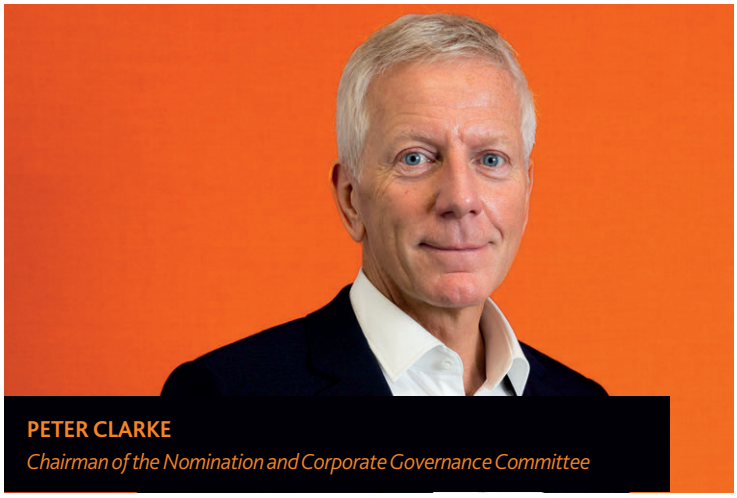
The Company has two indefinite life intangible assets following the acquisition of Cathedral – goodwill and syndicate participation rights. Intangible assets with indefinite useful lives are subject to an impairment review at least annually or sooner if there is an indication of impairment. Some of the key inputs in the impairment review are based on management judgement and/or estimation (see page 97 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 Company'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 EY that there was no impairment of the Company's intangible assets.

PRIORITIES FOR 2017

The Committee's key priorities for 2017 are:

- To achieve a smooth transition of external auditors and a constructive and productive relationship with KPMG in that role.
- To ensure the continued effectiveness of the Group's control environment and the integrity of external financial reporting.
- To monitor the preparation by the Group for the implementation of IFRS 17 following confirmation by the IASB of the 1 January 2021 effective date.

NOMINATION AND *CORPORATE GOVERNANCE COMMITTEE*



PETER CLARKE
Chairman of the Nomination and Corporate Governance Committee

The focus of the Committee during 2016 has been on succession planning and consideration of the balance of skills, experience, independence and knowledge on the Board and talent management across the 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[1] (Chairman)	2/2
Michael Dawson[2]	0/0
Samantha Hoe-Richardson	4/4
Tom Milligan[3]	2/2
Martin Thomas[1]	2/2
Emma Duncan[3]	2/2

(1) Martin Thomas retired as a member of the Nomination and Corporate Governance Committee as of his retirement from the Board on 4 May 2016. Peter Clarke succeeded Martin Thomas as Chairman of the Committee.
(2) Michael Dawson was appointed as a member of the Nomination and Corporate Governance Committee with effect from 3 November 2016.
(3) Emma Duncan retired as a member of the Nomination and Corporate Governance Committee with effect from 8 July 2016. Tom Milligan succeeded Emma Duncan as a member of the Committee.

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Reviews the structure, size and composition (including the skills, knowledge, 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.
- 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 2016

BOARD COMPOSITION AND APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The Committee reviewed the composition of the Board to ensure that the balance of skills, experience, independence, knowledge and diversity continued 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 Eliot Partnership, a global insurance executive search firm with no other connection to the Group, were engaged. They identified a number of potential candidates. The Committee recommended the appointments of Robert Lusardi and Michael Dawson as Non-Executive Directors.

The Committee recommended to the Board the various changes to the composition of the Board Committees which were made 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 of the business. A particular area of focus during 2016 was the continued buildout of the Group's talent management and development programme to ensure it is aligned with the overarching business strategy.

APPOINTMENT OF DIRECTORS TO SUBSIDIARY BOARDS AND SENIOR EXECUTIVE POSITIONS

The Committee monitored the composition of subsidiary Boards during 2016, reviewing in particular the appointments of Simon Fraser, Lance Gibbins and Nicholas Davenport as Non-Executive Directors of CUL, the appointment of Beverley Todd as the Non-Executive Director and Chair of LICL, and the appointments of Adrian Colosso and Samantha Hoe-Richardson as Non-Executive Directors of LUK. The Committee also reviewed the appointments of Heather McKinlay to the role of CUL CFO, Marion Madden as interim Managing Director of CUL and Andrew McKee, who will be joining the Group as the permanent CUL CEO in June 2017.

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 2016, the Committee recommended the approval by the Board of a revised Group Share Dealing Code and new Policy following the implementation of the Market Abuse Regulation in July 2016.

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 recommended approval by the Board of an updated statement on the representation of women on the Board, on executive committees and in senior management. This is published on the Company's website. In the context of Lord Davies' reports, the Committee recognises the benefits that a broad diversity of skills, experience and gender, amongst other factors, brings to enhance Board performance, but considers that quotas are not the best option for achieving diversity.

The Committee considered statistics relevant to the gender composition of the Board, Group management excluding Non-Executive Directors, and overall Group employees. These statistics are shown opposite.

The Committee also reviewed and approved the Chairman's statement on Slavery and Human Trafficking 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. The Committee held a meeting with the Trustees of the Lancashire Foundation during the autumn of 2016 to receive a report on its charitable activities and to discuss the ways in which the Foundation engages with employees throughout the Group.

PRIORITIES FOR 2017

The Committee's key priorities for 2017 are:

- To continue to review succession planning for Directors and senior executives and to support management in the development of the talent pipeline.
- To review the outcomes of the 2016 annual performance evaluation of the Committees' performance, the composition of the Board, and agree and monitor any necessary actions.
- To continue its focus on corporate governance requirements, regulatory developments and compliance with the Code.

LHL BOARD MEMBERS

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

GROUP MANAGEMENT EXCLUDING LHL NON-EXECUTIVE DIRECTORS

Male: 12 (71%)
Female: 5 (29%)
Total: 17

OVERALL GROUP EMPLOYEES

Male: 120 (61%)
Female: 78 (39%)
Total: 198

INVESTMENT *COMMITTEE*

PETER CLARKE
Chairman of the Investment Committee

Our investment philosophy is to preserve capital and to ensure liquidity in our investments to complement our underwriting operations and service the needs of our clients.

COMMITTEE MEMBERSHIP

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

	Meetings attended
Peter Clarke (Chairman)	4/4
Robert Lusardi[1]	2/2
Tom Milligan	4/4
Denise O'Donoghue	4/4
Elaine Whelan	4/4
Emma Duncan[2]	2/2

(1) Robert Lusardi was appointed as a member of the Investment Committee with effect from 8 July 2016.
(2) Emma Duncan retired as a member of the Investment Committee with effect from 8 July 2016.

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.
- 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 2016

The Committee regularly discussed and kept under review macro-economic and global political developments during the year, in particular the effects of the UK Brexit vote and the U.S. election 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 Board.

During the second quarter of 2016, the Committee undertook a strategic asset allocation analysis and recommended the 2016/2017 investment strategy to the Board. During the fourth quarter of 2016, the Committee approved the appointment of a new hedge fund adviser.

PRIORITIES FOR 2017

The Committee's key priorities for 2017 are:

- To maintain a continued focus on the preservation of capital, the maintenance of liquidity and the mitigation of interest rate risk.
- The continued management of the risk-on/risk-off balance in the portfolio in anticipation of gradually increasing interest rates and inflationary practices in the U.S., while also protecting the portfolio in risk-off environments.

UNDERWRITING AND *UNDERWRITING RISK COMMITTEE*

ALEX MALONEY
Chairman of the Underwriting and Underwriting Risk Committee

The Committee provides a forum for discussing the state of the insurance and reinsurance sectors in which the Group operates, and determining and monitoring the Group's risk tolerances through the insurance cycle.

COMMITTEE MEMBERSHIP

During 2016 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 Head of Capital Modeling (who are not Directors).

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

(1) Michael Dawson was appointed as a member of the Underwriting and Underwriting Risk Committee with effect from 3 November 2016.
(2) Paul Gregory was unable to attend the July 2016 Committee meeting due to planned medical leave of absence.
(3) John Spence was appointed as a member of the Underwriting and Underwriting Risk Committee with effect from 1 November 2016.
(4) Richard Williams was appointed as a member of the Underwriting and Underwriting Risk Committee with effect from 28 April 2016.

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Formulates 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.
- Monitors underwriting risk and its consistency with the Group's risk profile and risk appetite.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2016

Underwriting risk is the key risk faced by the Group, and the Committee is actively engaged in the development of strategy and underwriting risk tolerances, which are approved by the Board. The Committee also monitors underwriting performance on a quarterly basis. Lancashire continues to prioritise good risk selection first and foremost, and the Committee has been supportive of management's strategic priority of servicing the insurance requirements of a core group of existing clients and their brokers. During 2016 the Group achieved greater efficiencies in the structuring and pricing of outwards reinsurance protections, thereby helping to effectively manage peak risk exposures across the business. The Committee monitored the restructuring of the underwriting teams within Cathedral, including the appointments of the Active Underwriters of Syndicates 2010 and 3010 and the recruitment of new underwriters within Cathedral during the year. The Committee also received regular reports on the progress made in the development of the Kinesis platform during 2016. The Committee also received quarterly reports of significant claims and reserve developments.

During 2016, the Committee meetings were open to attendance by all 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.

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 2017

The Committee's key priorities for 2017 are:

- To continue to monitor the development of a forward-looking and disciplined underwriting strategy appropriate for the Group's three underwriting platforms, within a framework of appropriate risk tolerances.
- 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 that financial rewards are appropriately linked to performance, and that there is a balance which 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[1]	0/0
Robert Lusardi[2]	2/2
Emma Duncan[3]	2/2
Samantha Hoe-Richardson[1]	2/2

(1) Samantha Hoe-Richardson was appointed as a member of the Remuneration Committee on an interim basis with effect from 4 May 2016. Michael Dawson succeeded Samantha Hoe-Richardson as a member of the Committee with effect from 3 November 2016.
(2) Robert Lusardi was appointed as a member of the Remuneration Committee with effect from 8 July 2016.
(3) Emma Duncan retired as a member of the Remuneration Committee with effect from 8 July 2016.

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 restricted share scheme 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.
- Oversees any major changes in employee benefit structures throughout the Group.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2016

During 2016, the Committee reviewed the Group incentive packages to ensure that remuneration was 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 2016 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 modified the guidelines to introduce a minimum qualifying holding for all Executive Directors of not less than 200 per cent of salary, thereby further increasing the alignment with shareholders.

In accordance with UK company best practices the Committee also reviewed the policy for Executive Directors' remuneration which has a three-year life, with a view to making a policy recommendation to shareholders at the 2017 AGM. The Committee considers the existing policy (last approved in 2014) fit for purpose but has proposed certain minor amendments to the policy to improve its clarity and operation. The Committee also reviewed the terms of the ten-year RSS rules governing the award of long-term incentives which are due for renewal at the 2017 AGM. No material amendments to the terms of the RSS rules are proposed, although certain clarificatory changes are proposed including the introduction of more formal provisions for the use of holding periods for specified awards. The Committee also initiated a consultation exercise prior to the year end including significant shareholders and certain of the proxy advisory services to receive feedback specifically in relation to the Group's policy for Executive Director remuneration, the renewal of the RSS rules and the metrics to be used for the operation of Executive Director remuneration during 2017. Further details regarding the policy for Executive Director remuneration and the RSS rules are given in the Directors' Remuneration Report and the Annual Report on Remuneration, for which the Committee is responsible, and which can be found on pages 61 to 79.

During 2016, the Committee undertook a review of, and recommended changes to, the companies comprising the Company's peer group for comparator purposes in light of recent M&A activity. A list of peer companies is on page 76.

PRIORITIES FOR 2017

The Committee's key priorities for 2017 are:

- To review the ongoing appropriateness and relevance of the Group's remuneration structures.
- 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 2016 Directors' Remuneration Report to shareholders.

Lancashire's Directors' Remuneration Policy was first put to shareholders and approved at the 2014 AGM. The Policy has served us well and, in accordance with the practice for UK companies, we will be submitting our Directors' Remuneration Policy for reapproval at the 2017 AGM. Proposed changes are few in number and largely ensure greater clarity and address administrative details. No material changes are proposed to the policy. A copy of the policy proposed for approval at the 2017 AGM is set out on pages 63 to 68.

REMUNERATION AND STRATEGY

The Group's goal continues to be to reward its employees fairly and responsibly by providing an appropriate balance between fixed 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 at the front of 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.

Against this background the Board has debated at length during this last year the issues raised by the global macro-economic environment, the current trend towards lower investment returns generally and the particular challenges to the insurance industry as a whole. The Board and management believe that the insurance industry is cyclical in its fundamental characteristics. Therefore, at the current low point in the insurance cycle the Group must prioritise achieving acceptable, but more modest, returns. This means moderating overall risk levels through underwriting discipline and prudent reinsurance planning, whilst ensuring that the business continues to service the needs of its core clients and brokers. The Board considers that such measures are important 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.

PROPOSAL TO RENEW THE RESTRICTED SHARE SCHEME AT THE 2017 AGM

Lancashire's long-term incentive scheme, the RSS, is due to expire in 2018 and therefore shareholder approval will be sought for a replacement scheme at the 2017 AGM. The replacement RSS rules will have substantially the same terms as the existing scheme. There are some minor changes to bring the new rules more in line with current best practice including the extension of the clawback period for awards to three years post vesting; and a change to determine the value of shares subject to an award from the beginning of the financial year to a period of five trading days immediately prior to the date of such award.

Lancashire will continue the practice of paying dividend equivalents on vested RSS awards (structured as nil cost options) up until the date of exercise of awards. The Company is very active in its capital management – often paying very significant dividends which can lead to a reduction in the share price.

PERFORMANCE OUTCOME FOR 2016

The Group has delivered very solid results in a market which remained challenging during 2016 (see the performance review of this report on pages 72 to 75).

Against a continuing background of difficult market conditions there was a decrease in total remuneration of 11.1 per cent for the CEO and 13.5 per cent for the CFO between 2015 and 2016 (see the comparison table for single figure remuneration on page 71). This movement is consistent with an RoE of 13.5 per cent for 2016 compared to 10.9 per cent for 2015 (13.5 per cent on a warrant adjusted basis) and a total shareholder return of 2.4 per cent for the year compared to 25.9 per cent for 2015, which affected vesting levels on the 2014 RSS awards (see below and page 74 for further details).

Executive Directors' annual bonus performance targets set at the beginning of 2016 for personal and financial performance were stretching, and given the Company's 2016 performance were achieved at above target level (and at 63 per cent of maximum bonus for the CEO and the CFO), subject to final confirmation of peer group performance data. The potential percentage of maximum bonus for both the CEO and CFO could rise to 78 per cent should the Company performance be ranked at or above the upper quartile against peers.

In relation to long-term incentives, the 2014 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 2016. 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, adjusted for warrants, over this three-year performance period was 13.9 per cent against a threshold target of the 13-week Treasury bill rate plus 6 per cent and a maximum pay-out of the 13-week Treasury bill rate plus 15 per cent, resulting in 89.8 per cent of the RoE component of the 2014 Performance RSS awards vesting. Overall, the 2014 Performance RSS awards vested at 67.4 per cent. This compared to the overall 75 per cent vesting of the 2013 Performance RSS awards due to 100 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 current Executive Directors in 2016 was lower than that received in 2015 (see page 71 for the comparison data). In the current difficult underwriting environment total remuneration for the Executive Directors is lower than in many previous years, as demonstrated by the chart 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 to discourage excessive risk to the business.

The like-for-like employee costs for the Group were $72.1 million in 2016 compared with $80.1 million in 2015 (see page 78 for further detail). A majority of our employment costs are in Sterling and this reduction is driven principally by the fall in value of Sterling against the U.S. dollar.

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.

APPLICATION OF REMUNERATION POLICY FOR 2017

As mentioned above, the Remuneration Committee has reviewed the policy approved by shareholders and believes it remains fit for purpose, subject to certain minor changes. The policy changes include the introduction of a two-year holding period on long-term incentive awards and a strengthening of share ownership guidelines whereby a 200 per cent of salary guideline will apply to all Executive Directors and not just the CEO. Both these changes provide greater long-term alignment with our shareholder base.

After careful deliberation and consultation with our major shareholders and the major shareholder advisory groups, the Board has decided to modify the way in which the Company implements the Remuneration Policy for 2017. In setting annual bonus targets the Board has decided to create a more formal linkage between performance targets and the investment return environment. In relation to longer-term RSS awards the Board has set targets by reference to appropriate expectations for growth in fully converted book value per share plus dividends, an important metric for our shareholders and within the investment community for property and casualty companies. Relative total shareholder return will continue to account for 25 per cent of the award. Further details are set out on pages 69 to 71 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 2017 and how Directors have been paid in relation to 2016.

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. Additionally, the proposed new Remuneration Policy for 2017–2020 and the revised RSS rules will both be put forward at the 2017 AGM for a binding vote. 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 first Remuneration Policy was approved by shareholders at the 2014 AGM. That policy had a three-year life and will expire at the 2017 AGM.

During the year, the Committee completed a review of executive remuneration which sought to ensure continued alignment with the Company's strategy and take account of good and developing practice. The revised Remuneration Policy for the Company's Directors is set out in this report and will be put forward for shareholder approval at the AGM on 3 May 2017. If the policy is approved, it will take effect immediately following the 2017 AGM and it is intended to apply for a period of three years from the 2017 AGM. The revised Remuneration Policy contains details of the Company's policy to govern future payments that will be made to Directors. If approved, all remuneration and loss of office payments made after 3 May 2017 will only be made if they are consistent with the approved Remuneration Policy. Full details of how the Company will implement the revised Remuneration Policy in 2017 is provided in the Annual Report on Remuneration section starting on page 69.

The Annual Report on Remuneration also details the remuneration paid to Directors in respect of the 2016 financial year in accordance with the policy approved at the 2014 AGM.

The revised Remuneration Policy has been developed taking into account the principles of the Code and the views of our major shareholders.

GOVERNANCE AND APPROACH

The Company's proposed 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 proposed 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 considered whether any element of the proposed 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 claw back 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 proposed 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.

CHANGES MADE TO THE POLICY

Following the review of the remuneration arrangements for Executive Directors, some changes were introduced to the policy to reflect changes in best practice and to provide a limited amount of additional flexibility.

As mentioned above, the most material policy changes include the introduction of a two-year holding period on long-term incentive awards and a strengthening of share ownership guidelines.

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 ten 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 claw back if the 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 pay-out 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-term 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 claw back if there is a material misstatement in the Company's 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' ('NEDs') 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.

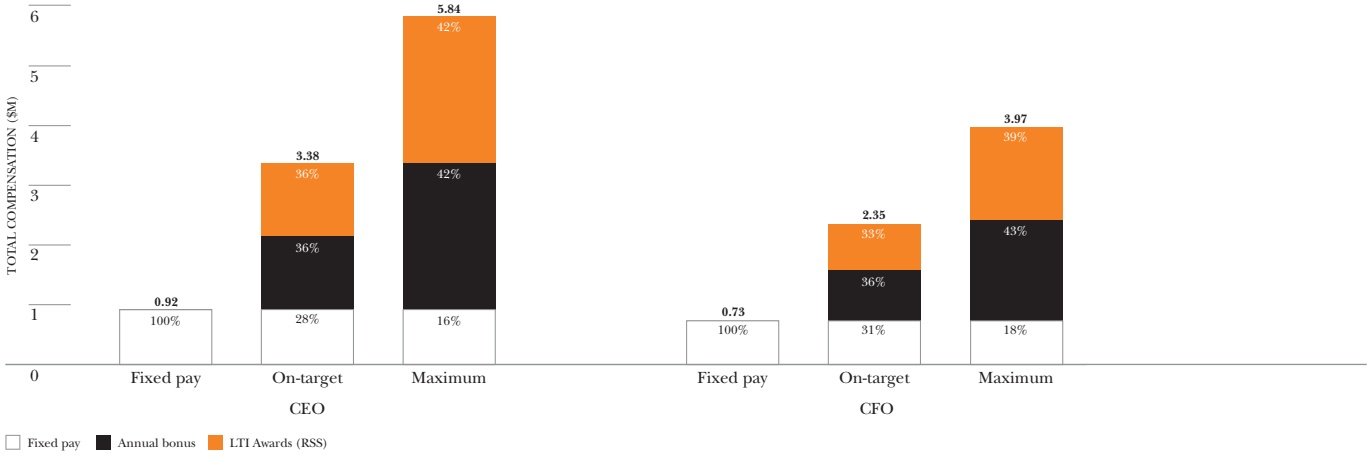
(2) All historic awards that were granted under any current or previous share scheme operated by the Company that remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the policy.

(3) Performance measures: these may include the performance indicators shown on pages 20 to 21 or others described within the Annual Report and Accounts Glossary commencing on page 156 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 2017 at different levels of performance under the proposed policy, if it is approved by shareholders at the 2017 AGM.



Fixed pay = 2017 Salary + Actual Value of 2016 Benefits + 2017 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2017 RSS grant (assuming 50 per cent vesting with face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2017 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 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 75 of the Annual Report on Remuneration), remain eligible for vesting or exercise based on their original award terms.

The Policy approved by shareholders at the 2014 AGM ('current policy') will continue to apply until this proposed Policy is approved at the 2017 AGM. If this proposed Policy is not approved at the 2017 AGM, the current policy will continue to apply in accordance with its terms.

ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration together with the Chairman's Statement, as detailed on pages 61 and 62, will be subject to an advisory vote at the 2017 AGM. The information on page 71 with respect to Directors' emoluments and onwards through page 79 has been audited by EY.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2017

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 2017.

BASE SALARY AND FEES

Executive Directors

Increases and resulting salaries effective from 1 January 2017 are set out below:

- CEO – salary increased by 3 per cent to $819,545.
- CFO – salary increased by 3 per cent to $562,755.
- For 2017, increases of 3 per cent are in line with the salary increases across the general workforce population.

Non-Executive Directors

The Chairman's and Non-Executive Directors' fees are as follows for 2017:

- The fee for the Chairman (Peter Clarke) is $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 £50,000 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 2017, the CEO 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 CFO's target bonus opportunity will be in line with the policy at 150 per cent of salary (maximum 300 per cent).

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 16 and 17 of this report). Further to consultation with the Company's major shareholders, the Company has decided both to simplify the measure for the financial performance element of the annual bonus targets and to create a more formal linkage between performance targets and the investment return environment. Accordingly, for 2017, the financial component 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 vesting will occur 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 difficult insurance market conditions, and will help to ensure a strong and more formulaic 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 vesting 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 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 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 2017 annual performance reviews each Executive Director will receive a performance rating which will determine the level of personal performance bonus pay-out for which each Executive Director will be eligible.

RESTRICTED SHARE SCHEME

Performance Conditions
For Executive Directors, 2017 RSS awards are subject to a range based on (i) average annual growth in FCBVS plus accrued dividends and (ii) relative TSR performance conditions, both measured by reference to a period ending on 31 December 2019. These metrics aim to provide an appropriate focus on the Company's underlying financial performance and cycle management, and in the case of relative TSR to provide an objective reward for stock market performance measured against the Company's peers.

Weighting
For 2017, the TSR/RoE weighting is 25 per cent on TSR and 75 per cent on average annual growth in FCBVS plus accrued dividends.

Target ranges
The average annual growth in FCBVS plus accrued dividends target range for 2017 awards is:

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

None of the award will vest if average annual growth in FCBVS plus accrued dividends 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.

The Board and Committee consider that the stretch target represents exceptional performance, given current challenging market conditions. 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.

The TSR target for 2017 awards is as follows:

The Group's TSR is compared against a comparator group comprising 11 peer companies as disclosed on page 76.

- 0 per cent will vest for a below median ranking;
- 25 per cent of the award will vest if Lancashire's performance is at the median; and
- 100 per cent of the award will vest for upper quartile and above performance.

Vesting will be on a proportionate basis for performance between median and upper quartiles.

Award levels
2017 RSS award levels are as follows:

- CEO – shares to the value of $2,458,636 (being 300 per cent of salary)
- CFO – shares to the value of $1,547,577 (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 2016 and 31 December 2015.

Executive Directors		Salary $	Pension $	Taxable Benefits[1] $	Annual Bonus[5,6] $	Long-Term Incentives (RSS)[2,3] $	Total[4] $
Alex Maloney[4], CEO	**2016**	**810,266**	**81,027**	**20,127**	**1,510,554**	**1,003,429**	**3,425,403**
	2015	770,955	77,096	19,785	1,668,165	1,316,789	3,852,790
Elaine Whelan[4], CFO	**2016**	**547,423**	**54,636**	**114,445**	**1,037,248**	**831,184**	**2,584,936**
	2015	530,224	55,880	98,273	1,145,474	1,158,324	2,988,175

(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. Taxable benefits for Elaine Whelan for 2015 have been adjusted to reflect final actual benefits.

(2) For 2016, the long-term incentive values are based on the 2014 RSS awards which vest at 67.4 per cent on 16 February 2017 and are based on a three-year performance period that ended on 31 December 2016. The values are based on the share price at 31 December 2016 and include the value of dividends accrued on vested shares.

(3) For 2015, the long-term incentive values were based on the 2013 RSS awards which vested at 75 per cent on 18 February 2016 and were based on a three-year performance period that ended on 31 December 2015. The values are re-presented from the 2015 Annual Report and Accounts based on the share price at the vesting date, 18 February 2016, 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 1.3777 for the year as they are set in U.S. dollars.

(5) For 2016, the Lancashire Group delivered solid results in a challenging market. Bonus targets were set at the beginning of 2016 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance had two components, absolute financial performance and relative financial performance weighted 60:40 respectively. The absolute component paid out at 131.25 per cent of target as the RoE was 13.5 per cent against a target level of 11 per cent and the relative component is provisionally cited at 58.33 per cent (with an estimated 50 per cent of maximum pay-out) pending the final audited results of peer companies needed in order to calculate the final bonus payable. For the personal element of Executive Directors' bonus opportunity the pay-out will be 75 per cent of the maximum for the CEO and 75 per cent of the maximum for the CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 72 and 73. 25 per cent of Executive Directors' annual bonus is deferred into the long-term incentive scheme without performance conditions, vesting at 33.33 per cent over a three-year period.

(6) Annual bonus figures for Alex Maloney and Elaine Whelan for 2015 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 2016, after the 2015 Directors' Remuneration Report was published for circulation. For 2015, 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 158 per cent of target (being 72 per cent of the maximum).

NON-EXECUTIVE DIRECTORS' FEES

Current Non-Executive Directors		Fee $	Other $	Total $
Peter Clarke[1]	**2016**	**290,769**	**–**	**290,769**
	2015	175,000	–	175,000
Michael Dawson[2]	**2016**	**28,269**	**–**	**28,269**
	2015	–	–	–
Simon Fraser[3]	**2016**	**175,000**	**66,974**	**241,974**
	2015	175,000	–	175,000
Samantha Hoe-Richardson[4]	**2016**	**175,000**	**13,350**	**188,350**
	2015	175,000	–	175,000
Robert Lusardi[5]	**2016**	**84,808**	**–**	**84,808**
	2015	–	–	–
Tom Milligan[6]	**2016**	**175,000**	**–**	**175,000**
	2015	158,958	–	158,958
Former Non-Executive Directors				
Emma Duncan[7]	**2016**	**91,538**	**–**	**91,538**
	2015	175,000	–	175,000
Martin Thomas[8]	**2016**	**111,250**	**34,375**	**145,625**
	2015	325,000	100,000	425,000

(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 are 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 are 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 are 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 are 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 are proportionally pro-rated for the year.

(6) Tom Milligan was appointed as a Non-Executive Director with effect from 3 February 2015 and his 2015 fees were proportionally pro-rated for the year.

(7) Emma Duncan retired from the Board on 8 July 2016 and her 2016 fees are proportionally pro-rated for the year.

(8) Martin Thomas retired from the Board on 4 May 2016 and his 2016 fees are proportionally pro-rated for the year.

2017 ANNUAL BONUS PAYMENTS IN RESPECT OF 2016 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 13.5 per cent.

FINANCIAL PERFORMANCE

75 per cent of the 2016 bonus was based on Company performance conditions and the extent to which they were achieved is as follows:

Performance Measures	Weighting (of total Company element of 75%) %	Threshold %	Target %	Max %	Actual performance %	% payout
Absolute RoE	60	7	11	19	13.5	131.3 of target
Relative RoE	40	50	N/A	75	58.3	100.0 of target
Total	100 (75 per cent of Total Bonus)					118.8 of target payable in respect of Company performance

For 2016, the Lancashire Group delivered solid results in a difficult market. The absolute component paid out at 131.3 per cent of target as the RoE was 13.5 per cent against a target of 11 per cent. The relative component against the results of peer companies is provisionally stated at median performance (100 per cent pay-out of target, and 50 per cent of the maximum) pending the final audited results of peer companies needed in order to calculate the final bonus payable. Any changes to the bonus numbers reported will be re-presented in the 2017 Directors' Remuneration Report as final numbers.

PERSONAL PERFORMANCE

25 per cent of the 2016 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 2016 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 2016 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus pay-out for which each Executive Director was eligible.

As expected for a solid performance year in a challenging market, the Executive Directors each achieved a strong performance rating against their objectives. For the 2016 performance against personal objectives the following 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 for personal performance: CEO – 75 per cent, and CFO – 75 per cent.

A table of performance measures and total 2016 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[1] bonus value $	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	63	1,510,554	1,132,915	377,639
Elaine Whelan	75	25	63	1,037,248	777,936	259,312

(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 2018, 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 – 2014 RSS AWARD

The 2014 RSS awards were based on a three-year performance period ending on 31 December 2016 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 67.4 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 2014 RSS awards)		Average annual RoE (over three years in excess of 13-week Treasury Bill Rate) (relevant to 75% of the 2014 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	13.9	89.8

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	124,333	40,532	83,801	287,256	1,003,429
Elaine Whelan	102,989	33,573	69,416	237,947	831,184

(1) The value of the vested shares is based on the 2014 RSS awards which vest at 67.4 per cent on 16 February 2017 and are based on a three-year performance period that ended on 31 December 2016. The values are provisionally based on the average share price of the last quarter of 2016 (being $8.55 based on the exchange rate of 1.2422). The vested awards are subject to the claw-back provision set out on page 65.

(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 18 February 2016.

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	18-Feb-2016	219,254	1,940,398	25
Elaine Whelan	18-Feb-2016	157,104	1,390,370	25

(1) The share price on the date of performance awards grant was $8.85 when the RSS share awards were granted as nil-cost options. The awards were based on the share price as at 31 December 2015 (being $9.31, based on the exchange rate of 1.4826).

(2) These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2018 and becoming exercisable in the first open period following the release of the Company's 2018 year-end results after the meeting of the Board in February 2019.

(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 2016 year.

DETAILS OF ALL OUTSTANDING SHARE AWARDS

In addition to awards made during the 2016 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-16	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-16	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	28-Feb-13	–	131,969	–	**98,976**	**32,993**	**98,976**	–	31-Dec-15
	Deferred Bonus RSS[4]	5-Mar-13	–	5,848	–	**5,848**	–	**5,848**	–	
	Performance RSS[2,3]	19-Feb-14	–	124,333	–	–	–	–	**124,333**	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	19,620	–	**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	–	41,929	–	**13,976**	–	**13,976**	**27,953**	
	Performance RSS[2,3]	18-Feb-16	–	–	**219,254**	–	–	–	**219,254**	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	–	**56,224**	–	–	–	**56,224**	
Total				**567,907**	**275,478**	**128,610**	**32,993**	**128,610**	**681,782**	
Elaine Whelan, Group CFO & LICL CEO	Performance RSS[2,3]	28-Feb-13	–	116,087	–	**87,065**	**29,022**	**87,065**	–	31-Dec-15
	Deferred Bonus RSS[4]	5-Mar-13	–	5,040	–	**5,040**	–	**5,040**	–	
	Performance RSS[2,3]	19-Feb-14	–	102,989	–	–	–	–	**102,989**	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	15,971	–	**7,985**	–	**7,985**	**7,986**	
	Performance RSS[2,3]	12-Feb-15	–	168,149	–	–	–	–	**168,149**	31-Dec-17
	Deferred Bonus RSS[4]	20-Mar-15	–	29,540	–	**9,847**	–	**9,847**	**19,693**	
	Performance RSS[2,3]	18-Feb-16	–	–	**157,104**	–	–	–	**157,104**	31-Dec-18
	Deferred Bonus RSS[4]	11-Mar-16	–	–	**38,607**	–	–	–	**38,607**	
Total				**437,776**	**195,711**	**109,937**	**29,022**	**109,937**	**494,528**	

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

- 28 February 2013 £9.09
- 5 March 2013 £9.08
- 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

(2) The vesting of the RSS performance awards 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 76, 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 76. 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 – first open period following the release of the Company's 2017 year-end results; and
- 2016 – first open period following the release of the Company's 2018 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 2013 to 2016 Deferred Bonus awards, are as follows:

- 2013 – 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 2013, 2014 and 2015;
- 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; and
- 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.

TSR TARGETS FOR RSS (25 PER CENT WEIGHTING)

	2013	2014	2015	2016	2017
100%	75th percentile	75th percentile	75th percentile	75th percentile	75th percentile
25%	= median	= median	= median	= median	= median
Nil	< median	< median	< median	< median	< median

ROE TARGETS FOR RSS (75 PER CENT WEIGHTING)

	2013	2014	2015	2016	2017*
100%	RFRoR + 15%	RFRoR +15%	RFRoR +15%	RFRoR +15%	13%
25%	RFRoR + 6%	RFRoR + 6%	RFRoR + 6%	RFRoR + 6%	6%
Nil	< RFRoR + 6%	< RFRoR + 6%	< RFRoR + 6%	< RFRoR + 6%	< 6%

* Average annual growth in FCBVS plus accrued dividends.

Peer Companies	2013 awards	2014 awards	2015 awards	2016 awards	2017 awards
Amlin plc[1]	X	X	X	–	–
Arch Capital Group Limited[2, 4]	–	–	–	X	X
Argo Group International Holdings, Ltd.	X	X	X	X	X
Aspen Insurance Holdings Limited	X	X	X	X	X
Axis Capital Holdings Limited	X	X	X	X	X
Beazley plc	X	X	X	X	X
Catlin Group Ltd.[3]	X	X	–	–	–
Endurance Specialty Holdings Ltd.[4,7]	X	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	X
Montpelier Re Holdings Ltd.[7]	X	X	–	–	–
Novae Group plc[8]	–	–	X	X	X
Renaissance Re Holdings Ltd.	X	X	X	X	X
Validus Holdings Ltd.	X	X	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 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.

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.

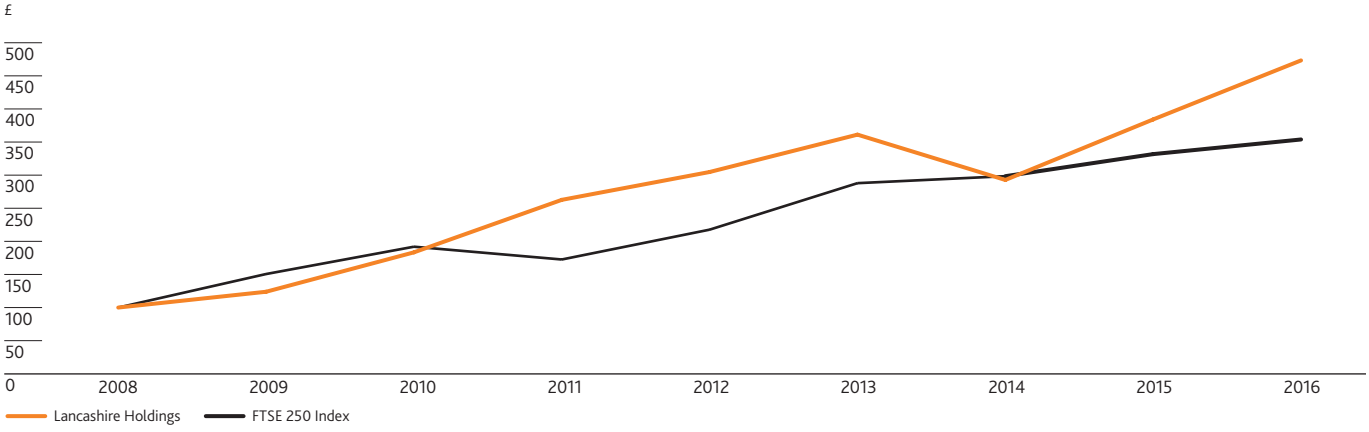
	Number of Ordinary Shares						
	As at 1 January 2016	As at 31 December 2016					
Directors	Legally owned	**Legally owned**	**Subject to deferral under the RSS**	**Subject to performance conditions under the RSS**	**Vested but unexercised awards under other share-based plans**	**Total**	**Shareholding guideline achieved?**
Alex Maloney	382,008	**513,512**	**93,987**	**587,795**	**–**	**1,195,294**	**Yes**
Elaine Whelan	287,169	**428,976**	**66,286**	**428,242**	**–**	**923,504**	**Yes**
Peter Clarke	–	**14,000**	**N/A**	**N/A**	**N/A**	**14,000**	**N/A**
Michael Dawson	N/A	**–**	**N/A**	**N/A**	**N/A**	**–**	**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	N/A	**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**
Former Non-Executive Directors							
Emma Duncan	–	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Martin Thomas	6,950	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Note: For the purpose of the shareholding guideline, legally owned shares are counted together with the net of tax value of deferred bonus and vested (but unexercised) long-term incentive awards.

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 2016, 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 eight 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**
Total remuneration ($000s)	7,244	9,945	9,623	10,460	10,175	10,072	2,405	3,853[4]	**3,425**
Annual bonus (%)	68	94	73	73	80	80	73	72[4]	**63**
LTI vesting (%)	N/A	99.6	100	99	100	61[3]	50	75	**67**

(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 2015 total remuneration and annual bonus percentage have been re-presented in the above table to reflect changes made after the publication of the 2015 Annual Report and Accounts. These changes are primarily due to the disclosed relative RoE performance which impacted his annual bonus figure for 2015 and the re-presentation of his LTI award vesting and dividend accrual value at the vesting date, as disclosed on page 71.

The table above shows the total remuneration figure for the former CEO during each of the relevant financial years; the current CEO is reflected 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 pay-out 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	5	10
Benefits	4	9
Bonus	-9	12

(1) Employee numbers were calculated on a per permanent employee headcount basis for the years ending 31 December 2016 and 31 December 2015, adjusted for any joiners and leavers during this period.

(2) The underlying salary increase from 2015 to 2016 for the CEO was 3 per cent. However some amounts were paid in Sterling and converted at the average exchange rate of 1.3777 for the year, which has resulted in the overall 5 per cent base salary year on year change above.

(3) The underlying salary increase from 2015 to 2016 for the general workforce population was 3 per cent. The 10 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 2016 compared to the year ended 31 December 2015.

	2016 $m	2015 $m	Percentage change %
Employee remuneration costs	**72.1**	80.1	-10
Dividends	**178.9**	317.5	-44

COMMITTEE MEMBERS, ATTENDEES AND ADVICE

The Remuneration Committee comprised the following members during the year and to the date of this report (all of whom are independent Non-Executive Directors, with the exception of Peter Clarke who is the Chairman of the Board):

Remuneration Committee Members	Position	Comments
Simon Fraser	LHL Remuneration Committee Chairman	Attended 4 of a potential maximum meetings of 4 in 2016
Peter Clarke	Member from 4 November 2014	Attended 4 of a potential maximum meetings of 4 in 2016
Michael Dawson	Member from 3 November 2016	Attended 0 of a potential maximum meetings of 0 in 2016
Robert Lusardi	Member from 8 July 2016	Attended 2 of a potential maximum meetings of 2 in 2016
Emma Duncan	Member from 5 November 2010 Retired on 8 July 2016	Attended 2 of a potential maximum meetings of 2 in 2016
Samantha Hoe-Richardson	Member on an interim basis from 4 May 2016 to 3 November 2016	Attended 2 of a potential maximum meetings of 2 in 2016

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 to 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 2016 were $159,473 (2015 – $132,330). 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 outgoing policy which have been restated below; any matters discussed with shareholders during the year are provided in the Implementation of Remuneration Policy for 2017 section of the report starting on page 69.

	Vote to approve 2015 Annual Report on Remuneration		2014 AGM Vote to approve outgoing Remuneration Policy	
	Total number of votes	**% of votes cast**	Total number of votes	% of votes cast
For	**139,168,062**	**96.1**	132,963,855	90.1
Against	**5,670,010**	**3.9**	14,530,236	9.9
Total	**144,838,072**	**100.0**	147,494,091	100.0
Abstentions	**4,450,849**		554,388	

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

Simon Fraser
LHL Remuneration Committee Chairman

15 February 2017

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 2016, the following dividends were declared:

- an interim dividend of $0.05 per common share was declared on 26 July 2016 and paid on 31 August 2016 in pounds sterling at the pound/U.S. dollar exchange rate of 1.3159 or £0.0380 per common share;
- a special dividend of $0.75 per common share was declared on 2 November 2016 and paid on 14 December 2016 in pounds sterling at the pound/U.S. dollar exchange rate of 1.2417 or £0.6040 per common share; and
- a final dividend of $0.10 per common share was declared on 15 February 2017 to be paid on 22 March 2017 in pounds sterling at the pound/U.S. dollar exchange rate on the record date of 24 February 2017 or approximately £0.08 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) (appointed Chairman effective 4 May 2016)
- Michael Dawson (Non-Executive Director) (appointed effective 3 November 2016)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Robert Lusardi (Non-Executive Director) (appointed effective 8 July 2016)
- Alex Maloney (Chief Executive Officer)
- Tom Milligan (Non-Executive Director)
- Elaine Whelan (Chief Financial Officer)

DIRECTORS WHO RETIRED DURING THE YEAR

- Martin Thomas (Non-Executive Chairman) (retired effective 4 May 2016)
- Emma Duncan (Non-Executive Director) (retired effective 8 July 2016)

DIRECTORS' INTERESTS

The Directors' beneficial interests in the Company's common shares as at 31 December 2016 and 2015 including interests held by family members were as follows:

Directors	Common shares held as at 31 December 2016	Common shares held as at 31 December 2015
Peter Clarke[1]	**14,000**	–
Michael Dawson	**–**	–
Simon Fraser	**1,000**	1,000
Samantha Hoe-Richardson	**3,947**	3,947
Robert Lusardi[2]	**3,000**	–
Alex Maloney[3]	**513,512**	382,008
Tom Milligan	**1,000**	1,000
Elaine Whelan[4]	**428,976**	287,169

Former Non-Executive Directors		
Emma Duncan	**N/A**	–
Martin Thomas	**N/A**	6,950

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 2016:
- 1 March – purchase of 14,000 shares at a price of £5.52 costing £77,241.

(2) Robert Lusardi conducted the following transactions in the Company's shares during 2016:
- 30 December – purchase of 3,000 shares at a price of $8.60 costing $25,800.

(3) Includes 100,000 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2016:
- 1 March – purchase of 44,553 shares at a price of £5.60 costing £249,497.
- 5 May – purchase of 18,955 shares at a price of £5.27 costing £99,798.
- 13 September – exercise of 98,976 RSS awards and 29,634 deferred bonus RSS awards and related sale of 60,614 shares to cover tax liabilities, at a price of £6.50 realising £394,032.

(4) Includes 11,590 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2016:
- 1 March – purchase of 29,500 shares at a price of £5.61 costing £165,569.
- 3 March – purchase of 8,990 shares at a price of £5.55 costing £49,912 by Kilian Whelan.
- 9 May – exercise of 87,065 RSS awards and 22,872 deferred bonus RSS awards and related sale of 6,620 shares on 9 and 10 May to cover tax liabilities, at a price of £5.55 realising £36,745.

TRANSACTIONS IN OWN SHARES

The Company did not repurchase any of its own common shares during 2016 or 2015.

The Group's current repurchase programme has 20,134,191 common shares remaining to be purchased as at 31 December 2016 (approximately $172.7 million at the 31 December 2016 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 150. The repurchase programme is subject to renewal at the 2017 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 61 to 79.

SUBSTANTIAL SHAREHOLDERS

As at 15 February 2017, 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 15 February 2017	% of shares in issue
Invesco Limited	39,964,120	20.0
Woodford Investment Management Ltd	31,558,488	15.8
Setanta Asset Management Limited	15,223,868	7.6
Vidacos Nominees Ltd	10,342,300	5.2
BlackRock, Inc.	8,976,004	4.5
Dimensional Fund Advisors LP	8,097.268	4.1
Franklin Mutual Advisers, LLC	7,856,956	3.9
Troy Asset Management Limited	6,842,393	3.4

CORPORATE GOVERNANCE – COMPLIANCE STATEMENT

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

The Company confirms, in accordance with the principle of 'comply or explain', that there are no areas of material non-compliance with the Code.

DONATIONS

In June 2016 the Company made a cash donation of $300,110 to the Lancashire Foundation.

The Foundation owns 330,713 common shares in the Company and during the 2016 calendar year received dividends of £236,010 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 2016 can be found in the Corporate Responsibility section on pages 36 to 41.

The Group did not make any political donations or expenditure during 2016 or 2015.

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 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 are available to all employees in the staff handbook which is available on the Group's intranet.

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 101 to 128 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 116 to 118.

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 2017 AGM, to be held on 3 May 2017 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 101, 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. 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 ORSA report. The three-year strategic plan was last approved by the Board on 26 July 2016. The Board receives quarterly reports from the CRO and sets and approves risk tolerances for the business. The Board approved the Group's 2016 ORSA report on 8 December 2016.

During 2016, and in particular in the preparation of the 2016 ORSA report, 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 2018, being the period considered under the Group's current three-year strategic plan.

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 2018. 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 2017 AGM to appoint KPMG as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

During 2016 the Company completed an audit tender process and, as a result, the Board decided to recommend to shareholders that KPMG be appointed as the Company's auditors at the 2017 AGM. EY have served as the Company's auditors since 2005. See page 54 for further details of the audit tender process.

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

15 February 2017

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

15 February 2017