



Contents

Business review: Financial performance..... 3

Unaudited condensed interim consolidated financial statements..... 8

Statement of Directors’ responsibilities..... 30

Independent review report..... 31

Glossary..... 32

Note regarding forward-looking statements..... 34

Business review: Financial performance

FINANCIAL HIGHLIGHTS

	30 June 2019	30 June 2018	31 December 2018
Fully converted book value per share	\$5.52	\$5.70	\$5.26
Return on equity - ytd	6.9%	5.9%	2.4%
Return on tangible equity - ytd	7.9%	6.9%	3.0%

	Six months ended 30 June 2019	Six months ended 30 June 2018	Twelve months ended 31 December 2018
Highlights (\$m)			
Gross premiums written	429.6	392.5	638.5
Net premiums written	222.6	234.0	417.7
Profit before tax	40.5	74.9	33.6
Profit after tax*	39.1	75.8	37.5
Comprehensive income*	68.7	64.4	24.7
Per share data			
Diluted earnings per share	\$0.19	\$0.38	\$0.19
Financial ratios			
Total investment return including internal currency hedging	3.2%	0.3%	0.8%
Net loss ratio	34.5%	15.1%	40.0%
Combined ratio	86.6%	67.1%	92.2%
Accident year loss ratio	40.5%	38.7%	70.0%

* These amount are attributable to Lancashire and exclude non-controlling interests.

Alex Maloney, Group Chief Executive Officer, commented:

"I am pleased with our performance in the first half of 2019. I am also encouraged by the emerging evidence that the (re)insurance market is now experiencing the long anticipated improvements in discipline and pricing in many of the Group's core business lines. We have seen good new business momentum in the first half of 2019, as we were able to benefit from our longstanding disciplined underwriting approach. In the face of a more cautious underwriting environment and evidence of market retrenchment in the specialty lines in which we write, we were able to take advantage of improving terms and demand. While the market overall was characterised by a number of attritional losses in the first half of 2019 and substantial loss creep on prior year events, it is worth noting that our ultimate net loss estimates for the 2018 and 2017 catastrophe events have remained largely stable, allowing us to deliver a solid combined ratio of 86.6% for the half year.

Looking ahead, the recent evidence of better market discipline and pricing will take time to feed through to our bottom line. However, I believe that we have the talent and capability to capitalise on the next stage of the (re)insurance cycle, and our strategy has positioned us well to maximise the improving underwriting opportunity."

Elaine Whelan, Group Chief Financial Officer, commented:

"The Group produced an RoE of 6.9% with a combined ratio of 86.6%. While we experienced some adverse development on the 2018 accident year due to some late reported claims, we had overall net favourable development on prior accident years. In addition, there were no major losses in the first six months of the year. Our investment strategy remains relatively conservative and our investment portfolio performed well with a net return of 3.2%. With expectations of interest rate reductions going forward, we have removed some of our interest rate hedges and that has led to a natural increase in the duration of our investment portfolio.

Our renewals went well and were in line with expectations. We have seen some growth across several lines of business, including the new lines that we added last year. We continue to remain well capitalised to take advantage of the opportunities we see for the remainder of the year."

UNDERWRITING RESULTS

Gross premiums written	Six months ended		Six months ended		Change	Change	RPI
	30 June 2019	30 June 2018	30 June 2019	30 June 2018			
	\$m	\$m	\$m	%			
Property	164.3	144.1	20.2	14.0			107.0
Energy	60.1	67.8	(7.7)	(11.4)			104.0
Marine	27.4	23.9	3.5	14.6			112.0
Aviation	12.2	8.8	3.4	38.6			100.0
Lloyd's	165.6	147.9	17.7	12.0			107.0
Total	429.6	392.5	37.1	9.5			107.0

Gross premiums written increased by 9.5% in the first six months of 2019 compared to the same period in 2018. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 14.0% for the first six months of 2019 compared to the same period in 2018. While the 1 January 2019 property catastrophe renewals experienced flat to low-single digit rate reductions, the second quarter renewal season saw the Group benefit from rate and exposure increases. There was also new business across several lines of business particularly in the political risk and property catastrophe lines of business, including some new opportunities in the Florida market. The strong deal flow was only partially offset by the impact of multi-year contracts that were not yet due to renew.

Energy gross premiums written decreased by 11.4% for the first six months of 2019 compared to the same period in 2018. While there was new business in the worldwide offshore and onshore energy classes, the same period in the prior year had a higher level of exposure-related premium increases arising on prior underwriting year risk-attaching business in the worldwide offshore and construction energy classes. The prior year also benefitted from the restructuring of an existing multi-year deal.

Marine gross premiums written increased by 14.6% for the first six months of 2019 compared to the same period in 2018. The increase in the marine segment was driven primarily by multi-year contracts renewing in the marine hull and marine P&I classes.

Aviation gross premiums written increased by 38.6% for the first six months of 2019 compared to the same period in 2018. The first half of the year is not a major renewal period for the aviation segment. However, there were exposure increases on prior underwriting year risk-attaching business in the aviation deductible class that were only partially offset by exposure decreases in the AV52 and satellite classes.

In the Lloyd's segment gross premiums written increased by 12.0% for the first six months of 2019 compared to the same period in 2018. The increase was primarily due to new business in the energy and aviation classes of business. Compared to the prior year premiums in the property reinsurance and property direct and facultative classes were flat. While there was some new business in those classes, part of the portfolio was repositioned to participate on higher layers and certain contracts were not renewed due to less attractive rates.

Ceded reinsurance premiums increased by \$48.5 million, or 30.6%, for the first six months of 2019 compared to the same period in 2018. The increase in spend was primarily due to a combination of additional cover purchased including cover for some of the new lines of business we have entered, the timing of renewals plus higher reinstatement premiums.

Net premiums earned as a proportion of net premiums written was 95.6% in the first six months of 2019 compared to 93.2% for the same period in 2018.

The Group's net loss ratio for the first six months of 2019 was 34.5% compared to 15.1% for the same period in 2018. The accident year loss ratio for the first six months of 2019, including the impact of foreign exchange revaluations, was 40.5% compared to 38.7% for the same period in 2018. There were no significant net losses in either period.

Prior year favourable development for the first six months of 2019 was \$15.9 million, compared to \$51.8 million of favourable development for the same period in 2018. The favourable development in both periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. However, the first six months of 2019 included some 2018 accident year claims in the energy and Lloyd's segments. In the prior period, the Group benefitted from a reduction on prior accident year energy claims.

Business review: Financial performance

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

	Six months ended	
	30 June 2019	30 June 2018
	\$m	\$m
Property	9.3	18.4
Energy	(1.8)	29.9
Marine	7.8	5.0
Aviation	0.5	1.0
Lloyd's	0.1	(2.5)
Total	15.9	51.8

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the six months 30 June 2019 and 2018:

	Six months ended	
	30 June 2019	30 June 2018
	\$m	\$m
2009 accident year and prior	1.7	11.4
2010 accident year	2.6	–
2011 accident year	1.9	3.7
2012 accident year	0.5	(1.5)
2013 accident year	0.5	2.3
2014 accident year	(0.2)	2.0
2015 accident year	–	5.1
2016 accident year	9.0	19.8
2017 accident year	10.0	9.0
2018 accident year	(10.1)	–
Total	15.9	51.8

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 34.8% at 30 June 2019 compared to 42.5% at 30 June 2018.

The total estimated net loss, excluding the impacts of inwards and outwards reinstatement premiums and our share of the losses from Kinesis, for the 2018 and 2017 reported catastrophe losses were as follows:

	30 June 2019	31 December 2018	30 June 2018
	\$m	\$m	\$m
2018 loss events ¹	102.5	104.9	n/a
2017 loss events ²	163.5	164.7	160.3

¹ The 2018 loss events include hurricanes Florence and Michael, typhoons Jebi, Mangkhut and Trami and the California wildfires, plus loss events within our marine portfolio.

² The 2017 loss events include hurricanes Harvey, Irma and Maria, the two earthquakes in Mexico plus the California wildfires.

INVESTMENTS

Net investment income, excluding realised and unrealised gains and losses, was \$19.6 million for the first six months of 2019, an increase of 23.3% from the same period in 2018. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of \$57.1 million for the first six months of 2019 compared to a gain of \$5.4 million for the first six months of 2018.

The Group's investment portfolio earned 3.2% for the first six months of 2019. Returns were driven by a strong equity market combined with both a decrease in treasury yields and a narrowing of credit spreads. This resulted in positive performance in all asset classes, particularly in the bank loan, equity and hedge fund portfolios. During the first half of 2018 investment returns were dampened by an increase in treasury yields and also modest credit spread widening. The portfolio generated a positive return due to strong returns from the Group's hedge fund and bank loan portfolios, as well as the Group's short treasury futures position, which mitigated some of the impact from the rise in treasury yields.

The corporate bond allocation represents 32.6% of managed invested assets at 30 June 2019 compared to 28.0% at 30 June 2018.

Business review: Financial performance

The managed portfolio was invested as follows:

	30 June 2019	30 June 2018	31 December 2018
	%	%	%
Fixed maturity securities	82.1	82.0	85.4
Hedge funds	9.5	8.9	8.5
Cash and cash equivalents	6.9	7.8	4.8
Equity securities	1.5	1.3	1.3
Total	100.0	100.0	100.0

Key investment portfolio statistics are:

	30 June 2019	30 June 2018	31 December 2018
	Duration	1.8 Years	1.6 years
Credit quality	A+	AA-	A+
Book yield	2.7%	2.3%	2.7%
Market yield	2.4%	2.8%	3.1%

LANCASHIRE THIRD PARTY CAPITAL MANAGEMENT

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

	Six months ended	
	30 June 2019	30 June 2018
	\$m	\$m
Kinesis underwriting fees	1.9	2.0
Lloyd's fees and profit commission	0.9	0.8
Total	2.8	2.8
Share of profit (loss) of associate	0.1	(2.4)
Total third party capital managed income	2.9	0.4

Total other income for the first six months of 2019 was consistent with the same period in 2018. Kinesis profit commission is driven by the timing of loss experience and collateral release and varies year on year. Given the catastrophe events of 2018 and 2017 the Group has not recognised any Kinesis profit commission in either period. The share of profit (loss) of associate reflects Lancashire's 10% equity interest in the Kinesis vehicle.

OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

	Six months ended	
	30 June 2019	30 June 2018
	\$m	\$m
Employee costs	29.9	30.9
Other operating expenses	20.9	19.9
Total	50.8	50.8

Employee remuneration costs and other operating expense for the first six months of 2019 are in line with the corresponding period in 2018. An increase in underlying employment costs due primarily to general salary increases and increased headcount was more than offset by a reduction in variable compensation and the impact of the depreciation in Sterling rates relative to the prior period.

EQUITY BASED COMPENSATION

The equity based compensation expense was \$3.8 million in the first six months of 2019 compared to \$3.8 million in the same period last year. The equity based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations.

Business review: Financial performance

CAPITAL

As at 30 June 2019, total capital available to Lancashire was \$1.445 billion, comprising shareholders' equity of \$1.121 billion and \$324.1 million of long-term debt. Tangible capital was \$1.291 billion. Leverage was 22.4% on total capital and 25.1% on total tangible capital. Total capital and total tangible capital as at 30 June 2018 were \$1.478 billion and \$1.324 billion respectively.

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

DIVIDENDS

During the first quarter of 2019, the Lancashire Board of Directors declared a final dividend in respect of 2018 of \$0.10 (approximately £0.08) per common share. The dividend, totalling \$20.1 million, was paid on 27 March 2019 to shareholders recorded on 22 February 2019.

Lancashire announces that its Board of Directors has declared an interim dividend for 2019 of \$0.05 (approximately £0.04) per common share, which will result in an aggregate payment of approximately \$10.1 million. The dividend will be paid in Pound Sterling on 6 September 2019 (the "Dividend Payment Date") to shareholders of record on 9 August 2019 (the "Record Date") using the £ / \$ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP"), or other services including international payment, are encouraged to contact the Group's registrars, Link Asset Services, for more details at: <https://www.linkassetservices.com/shareholders-and-investors/shareholder-services-uk>.

RATINGS

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

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

⁽¹⁾ Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

⁽²⁾ Long Term Issuer Rating applies to Lancashire Holdings Limited.

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months	Six months	Twelve months
		2019 \$m	2018 \$m	2018 \$m
Gross premiums written	2	429.6	392.5	638.5
Outwards reinsurance premiums	2	(207.0)	(158.5)	(220.8)
Net premiums written		222.6	234.0	417.7
Change in unearned premiums	2	(104.2)	(87.5)	(19.7)
Change in unearned premiums on premiums ceded	2	94.3	71.6	15.5
Net premiums earned		212.7	218.1	413.5
Net investment income	3	19.6	15.9	34.7
Net other investment income (losses)	3	7.3	3.1	(4.2)
Net realised (losses) gains and impairments	3	(0.2)	(2.0)	(5.1)
Share of profit (loss) of associate		0.1	(2.4)	(7.1)
Other income		2.8	2.8	12.4
Net foreign exchange losses		(2.3)	(1.4)	(1.6)
Total net revenue		240.0	234.1	442.6
Insurance losses and loss adjustment expenses	2, 6	152.0	51.1	307.4
Insurance losses and loss adjustment expenses recoverable	2, 6	(78.6)	(18.2)	(142.0)
Net insurance losses		73.4	32.9	165.4
Insurance acquisition expenses	2	64.4	64.7	131.0
Insurance acquisition expenses ceded	2	(4.5)	(2.0)	(4.6)
Other operating expenses		50.8	50.8	89.2
Equity based compensation		3.8	3.8	7.9
Total expenses		187.9	150.2	388.9
Results of operating activities		52.1	83.9	53.7
Financing costs		11.6	9.0	20.1
Profit before tax		40.5	74.9	33.6
Tax (charge) credit	4	(1.4)	0.8	4.0
Profit after tax		39.1	75.7	37.6
Profit for the period attributable to:				
Equity shareholders of LHL		39.1	75.8	37.5
Non-controlling interests		–	(0.1)	0.1
Profit for the period		39.1	75.7	37.6
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 5	30.4	(11.6)	(12.9)
Tax provision on net change in unrealised gains / losses on investments	4, 5	(0.8)	0.2	0.1
Other comprehensive income (loss)		29.6	(11.4)	(12.8)
Total comprehensive income for the period		68.7	64.3	24.8
Total comprehensive income attributable to:				
Equity shareholders of LHL		68.7	64.4	24.7
Non-controlling interests		–	(0.1)	0.1
Total comprehensive income for the period		68.7	64.3	24.8
Earnings per share				
Basic	9	\$0.19	\$0.38	\$0.19
Diluted	9	\$0.19	\$0.38	\$0.19

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

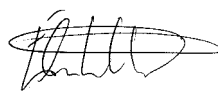
As at 30 June 2019

	Notes	30 June 2019	30 June 2018	31 December 2018
		\$m	\$m	\$m
Assets				
Cash and cash equivalents		232.8	212.4	154.6
Accrued interest receivable		6.6	6.7	6.8
Investments	5	1,581.3	1,689.4	1,659.0
Inwards premiums receivable from insureds and cedants		425.4	384.7	318.1
Reinsurance assets				
- Unearned premiums on premiums ceded		151.0	112.8	56.7
- Reinsurance recoveries	6	306.4	238.7	322.9
- Other receivables		43.2	20.5	9.8
Other receivables		56.2	45.3	35.3
Investment in associate		65.2	36.5	67.1
Property, plant and equipment		1.3	2.0	1.4
Right-of-use assets	8	19.5	-	-
Deferred acquisition costs		84.8	80.9	74.2
Intangible assets		153.8	153.8	153.8
Total assets		3,127.5	2,983.7	2,859.7
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	6	884.1	826.8	915.0
- Unearned premiums		474.8	438.4	370.6
- Other payables		40.8	39.9	36.0
Amounts payable to reinsurers		178.2	113.2	81.3
Deferred acquisition costs ceded		11.4	4.3	7.1
Other payables		54.7	67.6	45.4
Corporation tax payable		2.1	0.3	0.9
Deferred tax liability	7	12.3	14.9	11.2
Interest rate swap		1.4	0.1	0.4
Lease liability	8	22.5	-	-
Long-term debt		324.1	325.1	324.3
Total liabilities		2,006.4	1,830.6	1,792.2
Shareholders' equity				
Share capital		101.0	100.7	101.0
Own shares		(5.3)	(5.0)	(9.4)
Other reserves		867.9	860.6	869.0
Accumulated other comprehensive income (loss)	5	15.3	(12.9)	(14.3)
Retained earnings		141.9	209.4	120.9
Total shareholders' equity attributable to equity shareholders of LHL		1,120.8	1,152.8	1,067.2
Non-controlling interests		0.3	0.3	0.3
Total shareholders' equity		1,121.1	1,153.1	1,067.5
Total liabilities and shareholders' equity		3,127.5	2,983.7	2,859.7

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 24 July 2019 and signed on its behalf by:



Peter Clarke
Director/Chairman



Elaine Whelan
Director/CFO

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2019

	Share capital	Own shares	Other reserves	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity attributable to equity shareholders of LHL	Non-controlling interests	Total shareholders' equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance as at 31 December 2017	100.7	(12.1)	866.2	(1.5)	153.6	1,106.9	0.4	1,107.3
Total comprehensive income for the period	–	–	–	(11.4)	75.8	64.4	(0.1)	64.3
Distributed by trust	–	7.1	(9.6)	–	–	(2.5)	–	(2.5)
Dividends on common shares	–	–	–	–	(20.0)	(20.0)	–	(20.0)
Equity based compensation	–	–	4.0	–	–	4.0	–	4.0
Balance as at 30 June 2018	100.7	(5.0)	860.6	(12.9)	209.4	1,152.8	0.3	1,153.1
Total comprehensive loss for the period	–	–	–	(1.4)	(38.3)	(39.7)	0.2	(39.5)
Shares purchased by the trust	0.3	(4.6)	4.3	–	–	–	–	–
Distributed by trust	–	0.2	(0.3)	–	–	(0.1)	–	(0.1)
Purchase of shares from non-controlling interest	–	–	(0.1)	–	–	(0.1)	(0.2)	(0.3)
Dividends on common shares	–	–	–	–	(50.2)	(50.2)	–	(50.2)
Equity based compensation	–	–	4.5	–	–	4.5	–	4.5
Balance as at 31 December 2018	101.0	(9.4)	869.0	(14.3)	120.9	1,067.2	0.3	1,067.5
Initial recognition on adoption of IFRS 16 - Leases	–	–	–	–	2.0	2.0	–	2.0
Total comprehensive income for the period	–	–	–	29.6	39.1	68.7	–	68.7
Distributed by trust	–	4.1	(5.1)	–	–	(1.0)	–	(1.0)
Dividends on common shares	–	–	–	–	(20.1)	(20.1)	–	(20.1)
Equity based compensation	–	–	4.0	–	–	4.0	–	4.0
Balance as at 30 June 2019	101.0	(5.3)	867.9	15.3	141.9	1,120.8	0.3	1,121.1

CONDENSED INTERIM STATEMENT OF CONSOLIDATED CASH FLOWS

For the six months ended 30 June 2019

	Notes	Six months	Six months	Twelve months
		2019 \$m	2018 \$m	2018 \$m
Cash flows used in operating activities				
Profit before tax		40.5	74.9	33.6
Tax paid		–	(3.3)	(3.3)
Depreciation		2.0	0.7	1.4
Interest expense on long-term debt		9.4	8.8	18.1
Interest expense on lease liabilities	8	0.7	–	–
Interest and dividend income		(19.2)	(17.5)	(36.6)
Net amortisation of fixed maturity securities		(1.0)	0.3	(0.6)
Equity based compensation		3.8	3.8	7.9
Foreign exchange losses (gains)		2.0	(0.2)	(4.3)
Share of (profit) loss of associate		(0.1)	2.4	7.1
Net other investment (income) losses	3	(7.3)	(3.1)	3.9
Net realised losses (gains) and impairments	3	0.2	2.0	5.1
Net unrealised losses (gains) on interest rate swaps		1.0	(1.9)	(1.6)
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		(51.2)	(87.3)	(51.5)
- Other assets and liabilities		(9.0)	17.0	18.3
Net cash flows used in operating activities		(28.2)	(3.4)	(2.5)
Cash flows from (used in) investing activities				
Interest and dividends received		19.4	16.9	35.9
Purchase of property, plant and equipment		(0.6)	(0.1)	(0.2)
Investment in associate	10	2.0	20.5	(14.8)
Purchase of investments		(522.9)	(530.1)	(1,143.1)
Proceeds on sale of investments		639.6	484.1	1,115.8
Net cash flows from (used in) investing activities		137.5	(8.7)	(6.4)
Cash flows used in financing activities				
Interest paid		(9.4)	(8.8)	(18.0)
Lease liabilities paid	8	(1.8)	–	–
Dividends paid		(20.1)	(20.0)	(70.2)
Distributions by trust		(1.0)	(2.5)	(2.6)
Purchase of shares from non-controlling interest		–	–	(0.3)
Net cash flows used in financing activities		(32.3)	(31.3)	(91.1)
Net increase (decrease) in cash and cash equivalents		77.0	(43.4)	(100.0)
Cash and cash equivalents at beginning of period		154.6	256.5	256.5
Effect of exchange rate fluctuations on cash and cash equivalents		1.2	(0.7)	(1.9)
Cash and cash equivalents at end of period		232.8	212.4	154.6

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2019

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of the Group's unaudited condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2019. These are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, other than for the adoption of IFRS 16, Leases as stated below.

The Group adopted IFRS 16, with an initial date of application of 1 January 2019, using the modified retrospective approach (previously disclosed as the fully retrospective transition approach in the Group's consolidated financial statements for the year ended 31 December 2018). The cumulative effect of applying IFRS 16 being recognised as an adjustment against the opening balance in equity as at the date of initial application.

IFRS 16 removes the distinction between operating and finance leases and requires the recognition of a right-of-use asset and lease liability at the commencement for all leases, except for short-term leases or low value assets. The Group has made use of the practical expedient to grandfather the definition of a lease on transition to IFRS 16. Accordingly, the definition of a lease under IAS 17 and IFRIC 4 continues to be applied to leases entered into or modified before 1 January 2019. The Group previously classified operating leases based on its assessment of whether or not the lease transferred significantly all of the risk and rewards incidental to ownership of the underlying asset.

The change in definition of a lease under IFRS 16 mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the Group has the right to control the use of an identified asset, for a period of time, in exchange for consideration. The Group applies the IFRS 16 definition of a lease and the related guidance to all lease contracts entered into or modified on or after 1 January 2019.

IAS 17 did not require assets and liabilities arising from operating leases to be recognised on the balance sheet but did require disclosure of operating lease commitments in the notes to the unaudited condensed interim consolidated financial statements.

Applying IFRS 16 the Group:

- Recognises right-of-use assets and lease liabilities in the unaudited condensed interim consolidated balance sheet;
- Recognises depreciation of right-of-use assets and interest expense on lease liabilities in the unaudited condensed interim consolidated statement of comprehensive income; and
- Separates the total amount of cash paid into a principal portion and an interest portion in the unaudited condensed interim consolidated statement of cash flows.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases which have a lease period of 12 months or less and low-value assets. The Group recognises these lease payments in other operating expenses within the unaudited condensed interim consolidated statement of comprehensive income on a straight line basis over the lease term.

Change in accounting policy

Policy application from 1 January 2019

Details of the Group's lease accounting policy are disclosed below.

Leases

The Group assesses whether a contract is or contains a lease, at the inception of a contract, for all contracts that have been entered into or modified on or after 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date. Lease payments are discounted using the rate implicit in the lease, if readily determinable, or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; or
- Payments in respect of purchase options, lease termination options or lease extension options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability and the related right-of-use asset whenever:

- The lease term changes as a result of the Group changing its assessment of whether it will exercise a purchase, extension or termination option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2019

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

The Group applies IAS 36, Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Both the lease liabilities and right-of-use assets are presented as separate financial statement line items on the unaudited condensed interim consolidated balance sheet.

Other

There are also amendments to other existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2019. These are not currently relevant for the Group and do not impact the annual consolidated financial statements of the Group or the unaudited condensed interim consolidated financial statements of the Group.

Basis of preparation

The Group's unaudited condensed interim consolidated financial statements are prepared using accounting policies consistent with IFRS as adopted by the EU and in accordance with IAS 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements which are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the EU.

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

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

Seasonality of operations

The Group underwrites worldwide, short-tail insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes.

The Group has exposure to large losses arising from non-seasonal natural catastrophes, such as earthquakes, and also from risk losses throughout the year and from war, terrorism and political risk, power utilities and aviation deductible losses. On certain lines of business the Group's most significant exposures to catastrophe losses are greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period. This is broadly in line with the most active period of the North American windstorm season which is typically June to November. The Group is also exposed to Japanese and European windstorm seasons which are typically June to November and November to March, respectively.

Details of annual gross premiums written for the previous two years are as follows:

	2018		2017	
	\$m	%	\$m	%
January to June	392.5	61.5	381.2	64.4
July to December	246.0	38.5	210.4	35.6
Total	638.5	100.0	591.6	100.0

RISK AND OTHER DISCLOSURES

For the six months ended 30 June 2019

The Group's exposures to peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance. The exposure to catastrophe losses that would result in an impairment in the investment in associate is included in the figures below.

Zones	Perils	30 June 2019		30 June 2018		31 December 2018	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
100 year return period estimated net loss							
Gulf of Mexico ⁽¹⁾	Hurricane	143.4	11.1	184.8	14.0	163.2	13.2
California	Earthquake	83.1	6.4	82.0	6.2	78.0	6.3
Non-Gulf of Mexico - U.S.	Hurricane	74.7	5.8	126.7	9.6	110.2	8.9
Pan-European	Windstorm	61.0	4.7	74.3	5.6	70.7	5.7
Japan	Earthquake	37.3	2.9	47.0	3.5	45.0	3.6
Japan	Typhoon	27.9	2.2	35.5	2.7	36.3	2.9
Pacific North West	Earthquake	13.6	1.1	22.3	1.7	22.7	1.8

⁽¹⁾ Landing hurricane from Florida to Texas.

Zones	Perils	30 June 2019		30 June 2018		31 December 2018	
		\$m	% of tangible capital	\$m	% of tangible capital	\$m	% of tangible capital
250 year return period estimated net loss							
Gulf of Mexico ⁽¹⁾	Hurricane	324.6	25.1	269.0	20.3	242.8	19.6
Non-Gulf of Mexico - U.S.	Hurricane	328.9	25.5	278.1	21.0	241.6	19.5
California	Earthquake	153.0	11.9	141.2	10.7	129.5	10.5
Japan	Earthquake	99.4	7.7	105.8	8.0	81.2	6.6
Pan-European	Windstorm	89.2	6.9	122.5	9.3	118.0	9.5
Pacific North West	Earthquake	65.2	5.0	71.0	5.4	73.1	5.9
Japan	Typhoon	37.4	2.9	50.0	3.8	49.1	4.0

⁽¹⁾ Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, any modelled loss scenario could cause a larger loss to capital than the modelled expectation.

Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 111 to 133 in the Group's Annual Report and Accounts for the year ended 31 December 2018. The risks that were discussed on those pages were:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

These remain the most relevant risks and uncertainties for the Group.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in London and Bermuda. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the official list and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007 LHL's shares have had a secondary listing on the BSX. LHL's head office and registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 113 to 117 of the Group's Annual Report and Accounts for the year ended 31 December 2018. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2019	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
Gross premiums written by geographic area						
U.S. and Canada	80.3	2.6	–	–	75.5	158.4
Worldwide offshore	–	48.4	27.4	–	–	75.8
Worldwide, including the U.S. and Canada ⁽¹⁾	20.0	2.6	–	12.2	34.8	69.6
Europe	23.5	1.3	–	–	19.1	43.9
Far East	14.2	0.5	–	–	6.2	20.9
Worldwide, excluding the U.S. and Canada ⁽²⁾	3.4	3.0	–	–	5.3	11.7
Middle East	1.9	0.9	–	–	1.3	4.1
Rest of world	21.0	0.8	–	–	23.4	45.2
Total	164.3	60.1	27.4	12.2	165.6	429.6
Outwards reinsurance premiums	(95.1)	(30.7)	(12.0)	(8.0)	(61.2)	(207.0)
Change in unearned premiums	(57.6)	(13.0)	(7.5)	4.3	(30.4)	(104.2)
Change in unearned premiums on premiums ceded	47.7	14.7	6.4	1.7	23.8	94.3
Net premiums earned	59.3	31.1	14.3	10.2	97.8	212.7
Insurance losses and loss adjustment expenses	(59.2)	(25.2)	1.6	(5.4)	(63.8)	(152.0)
Insurance losses and loss adjustment expenses recoverable	56.5	2.1	(0.4)	2.9	17.5	78.6
Insurance acquisition expenses	(17.2)	(9.8)	(5.3)	(4.0)	(28.1)	(64.4)
Insurance acquisition expenses ceded	2.9	0.2	0.2	0.8	0.4	4.5
Net underwriting profit (loss)	42.3	(1.6)	10.4	4.5	23.8	79.4
Net unallocated income and expenses						(38.9)
Profit before tax						40.5
Net loss ratio	4.6%	74.3%	(8.4)%	24.5%	47.3%	34.5%
Net acquisition cost ratio	24.1%	30.9%	35.7%	31.4%	28.3%	28.2%
Expense ratio	–	–	–	–	–	23.9%
Combined ratio	28.7%	105.2%	27.3%	55.9%	75.6%	86.6%

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

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

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the six months ended 30 June 2018	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
Gross premiums written by geographic area						
U.S. and Canada	58.0	1.0	–	–	66.5	125.5
Worldwide offshore	0.2	57.5	24.1	–	–	81.8
Worldwide, including the U.S. and Canada ⁽¹⁾	23.5	5.4	–	8.8	36.4	74.1
Europe	20.7	0.9	–	–	15.9	37.5
Far East	15.7	0.1	–	–	6.0	21.8
Worldwide, excluding the U.S. and Canada ⁽²⁾	3.8	1.0	–	–	4.5	9.3
Middle East	2.1	1.1	–	–	0.5	3.7
Rest of world	20.1	0.8	(0.2)	–	18.1	38.8
Total	144.1	67.8	23.9	8.8	147.9	392.5
Outwards reinsurance premiums	(65.2)	(31.0)	(8.1)	(5.4)	(48.8)	(158.5)
Change in unearned premiums	(41.2)	(10.5)	2.0	1.5	(39.3)	(87.5)
Change in unearned premiums on premiums ceded	30.6	12.9	3.8	2.3	22.0	71.6
Net premiums earned	68.3	39.2	21.6	7.2	81.8	218.1
Insurance losses and loss adjustment expenses	(6.9)	7.5	(5.5)	(3.0)	(43.2)	(51.1)
Insurance losses and loss adjustment expenses recoverable	4.5	(0.1)	(0.1)	3.0	10.9	18.2
Insurance acquisition expenses	(17.0)	(17.5)	(7.7)	(3.7)	(18.8)	(64.7)
Insurance acquisition expenses ceded	1.5	0.4	(0.2)	–	0.3	2.0
Net underwriting profit	50.4	29.5	8.1	3.5	31.0	122.5
Net unallocated income and expenses						(47.6)
Profit before tax						74.9
Net loss ratio	3.5%	(18.9)%	25.9%	–	39.5%	15.1%
Net acquisition cost ratio	22.7%	43.6 %	36.6%	51.4%	22.6%	28.7%
Expense ratio	–	–	–	–	–	23.3%
Combined ratio	26.2%	24.7 %	62.5%	51.4%	62.1%	67.1%

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

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

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2018	Property \$m	Energy \$m	Marine \$m	Aviation \$m	Lloyd's \$m	Total \$m
Gross premiums written by geographic area						
U.S. and Canada	78.9	1.8	–	–	107.5	188.2
Worldwide offshore	0.3	87.0	31.3	–	–	118.6
Worldwide, including the U.S. and Canada ⁽¹⁾	30.7	6.5	–	32.9	59.7	129.8
Europe	27.4	1.9	–	–	22.0	51.3
Far East	15.3	0.5	–	–	13.2	29.0
Worldwide, excluding the U.S. and Canada ⁽²⁾	6.7	1.5	–	0.1	5.1	13.4
Middle East	4.4	2.3	–	–	1.5	8.2
Rest of world	50.9	1.5	(0.2)	–	47.8	100.0
Total	214.6	103.0	31.1	33.0	256.8	638.5
Outwards reinsurance premiums	(90.8)	(28.9)	(20.2)	(11.0)	(69.9)	(220.8)
Change in unearned premiums	(4.9)	7.9	10.6	(7.3)	(26.0)	(19.7)
Change in unearned premiums on premiums ceded	13.0	(6.1)	–	3.1	5.5	15.5
Net premiums earned	131.9	75.9	21.5	17.8	166.4	413.5
Insurance losses and loss adjustment expenses	(93.0)	22.0	(70.5)	(3.6)	(162.3)	(307.4)
Insurance losses and loss adjustment expenses recoverable	48.2	(1.4)	48.5	3.2	43.5	142.0
Insurance acquisition expenses	(34.8)	(34.1)	(11.4)	(9.4)	(41.3)	(131.0)
Insurance acquisition expenses ceded	3.3	0.5	(0.6)	1.0	0.4	4.6
Net underwriting profit (loss)	55.6	62.9	(12.5)	9.0	6.7	121.7
Net unallocated income and expenses						(88.1)
Profit before tax						33.6
Net loss ratio	34.0%	(27.1)%	102.3%	2.2%	71.4%	40.0%
Net acquisition cost ratio	23.9%	44.3 %	55.8%	47.2%	24.6%	30.6%
Expense ratio	–	–	–	–	–	21.6%
Combined ratio	57.9%	17.2 %	158.1%	49.4%	96.0%	92.2%

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

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

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the six months ended 30 June 2019	Net investment income and net other investment income (losses) ⁽¹⁾ \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	17.9	(0.6)	26.9	44.2	(0.2)	44.0
Fixed maturity securities - at FVTPL	2.3	–	–	2.3	–	2.3
Equity securities - AFS	–	–	3.5	3.5	–	3.5
Hedge funds - at FVTPL	4.2	0.2	–	4.4	–	4.4
Other investments	0.8	0.2	–	1.0	0.7	1.7
Cash and cash equivalents	1.7	–	–	1.7	0.4	2.1
Total investment return	26.9	(0.2)	30.4	57.1	0.9	58.0

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

For the six months ended 30 June 2018	Net investment income and net other investment income (losses) ⁽¹⁾ \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	14.9	(3.2)	(11.6)	0.1	(2.4)	(2.3)
Hedge funds - at FVTPL	2.9	1.6	–	4.5	–	4.5
Other investments	0.2	(0.4)	–	(0.2)	2.0	1.8
Cash and cash equivalents	1.0	–	–	1.0	(0.3)	0.7
Total investment return	19.0	(2.0)	(11.6)	5.4	(0.7)	4.7

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

For the year ended 31 December 2018	Net investment income and net other investment income (losses) ⁽¹⁾ \$m	Net realised (losses) gains and impairments \$m	Net change in unrealised gains/losses on AFS \$m	Total investment return excluding foreign exchange \$m	Net foreign exchange (losses) gains \$m	Total investment return including foreign exchange \$m
Fixed maturity securities - AFS	31.8	(6.4)	(12.4)	13.0	(5.4)	7.6
Fixed maturity securities - at FVTPL	(0.7)	–	–	(0.7)	–	(0.7)
Equity securities - AFS	–	–	(0.5)	(0.5)	–	(0.5)
Hedge funds - at FVTPL	(4.7)	2.3	–	(2.4)	–	(2.4)
Other investments	1.2	(1.0)	–	0.2	3.8	4.0
Cash and cash equivalents	2.9	–	–	2.9	(0.3)	2.6
Total investment return	30.5	(5.1)	(12.9)	12.5	(1.9)	10.6

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

Net realised (losses) gains and impairments includes impairment losses of \$0.1 million (30 June 2018 - \$0.1 million; 31 December 2018 - \$0.4 million) recognised on fixed maturity securities. Realised gains and losses on futures, options contracts and swaps are included in net realised (losses) gains and impairments. Included in net investment income and net other investment income (losses) is \$2.3 million (30 June 2018 - \$2.3 million; 31 December 2018 - \$4.4 million) of investment management, accounting and custodian fees.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

4. TAX

BERMUDA

LHL, LICL, LUK and KCML have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

From 1 January 2019, LHL ceased to be tax resident in the UK and subject to UK corporation tax. The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

	Six months 2019 \$m	Six months 2018 \$m	Twelve months 2018 \$m
Corporation tax charge for the period	2.0	0.7	2.9
Adjustments in respect of prior period corporation tax	(0.8)	0.1	(1.9)
Deferred tax credit for the period	(0.9)	(1.7)	(5.1)
Adjustments in respect of prior period deferred tax	1.1	0.1	0.1
Total tax charge (credit)	1.4	(0.8)	(4.0)

	Six months 2019 \$m	Six months 2018 \$m	Twelve months 2018 \$m
Profit before tax	40.5	74.9	33.6
Tax calculated at the standard corporation tax rate applicable in Bermuda 0% (2018 - United Kingdom 19.0%)	–	14.2	6.4
Non-taxable income	–	(16.9)	(13.3)
Effect of income taxed at a higher rate	0.1	–	–
Adjustments in respect of prior period	0.3	0.2	(1.8)
Differences related to equity based compensation	(0.2)	0.5	0.4
Other expense permanent differences	1.2	1.2	4.3
Total tax charge (credit)	1.4	(0.8)	(4.0)

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

The current tax charge (credit) as a percentage of the Group's profit before tax is 3.5% (30 June 2018 - negative 1.1% ; 31 December 2018 - negative 11.9%). Non taxable income relates to profits of companies within the Group that are non-tax resident in the UK and the share of profit (loss) of associate.

Refer to note 5 for details of the tax credit related to the net change in unrealised gains and losses on investments that are included in accumulated other comprehensive income (loss) within shareholders' equity.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

5. INVESTMENTS

As at 30 June 2019	Cost or amortised cost \$m	Unrealised gain ⁽¹⁾ \$m	Unrealised loss ⁽¹⁾ \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	132.7	0.1	–	132.8
- Fixed maturity funds	12.3	–	–	12.3
- U.S. treasuries	168.6	1.0	(0.2)	169.4
- Other government bonds	47.3	0.4	(0.3)	47.4
- U.S. municipal bonds	13.9	0.3	–	14.2
- U.S. government agency debt	74.7	1.4	(0.1)	76.0
- Asset backed securities	114.5	0.7	(2.4)	112.8
- U.S. government agency mortgage backed securities	94.4	0.8	(0.6)	94.6
- Non-agency mortgage backed securities	15.6	0.1	(0.1)	15.6
- Agency commercial mortgage backed securities	3.2	–	(0.1)	3.1
- Bank loans	117.6	0.2	(1.7)	116.1
- Corporate bonds	544.7	8.9	(0.8)	552.8
Total fixed maturity securities - AFS	1,339.5	13.9	(6.3)	1,347.1
- Fixed maturity securities - at FVTPL	45.7	1.6	–	47.3
- Equity securities - AFS	20.0	6.2	–	26.2
- Hedge funds - at FVTPL	150.1	15.5	(4.5)	161.1
- Other investments	–	–	(0.4)	(0.4)
Total investments	1,555.3	37.2	(11.2)	1,581.3

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

As at 30 June 2018	Cost or amortised cost \$m	Unrealised gain ⁽¹⁾ \$m	Unrealised loss ⁽¹⁾ \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	155.8	–	(0.1)	155.7
- Fixed maturity funds	12.4	–	–	12.4
- U.S. treasuries	208.1	–	(2.2)	205.9
- Other government bonds	66.1	0.1	(1.0)	65.2
- U.S. municipal bonds	7.1	0.1	(0.1)	7.1
- U.S. government agency debt	101.2	–	(1.1)	100.1
- Asset backed securities	141.3	2.5	(1.3)	142.5
- U.S. government agency mortgage backed securities	127.2	0.3	(4.2)	123.3
- Non-agency mortgage backed securities	19.2	–	–	19.2
- Non-agency commercial mortgage backed securities	0.2	–	–	0.2
- Bank loans	114.1	0.5	(0.8)	113.8
- Corporate bonds	520.1	1.0	(8.4)	512.7
Total fixed maturity securities - AFS	1,472.8	4.5	(19.2)	1,458.1
- Fixed maturity securities - at FVTPL	45.7	–	–	45.7
- Equity securities - AFS	20.0	3.2	–	23.2
- Hedge funds - at FVTPL	149.7	15.4	(2.4)	162.7
- Other investments	–	0.3	(0.6)	(0.3)
Total investments	1,688.2	23.4	(22.2)	1,689.4

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

As at 31 December 2018	Cost or amortised cost \$m	Unrealised gain ⁽¹⁾ \$m	Unrealised loss ⁽¹⁾ \$m	Estimated fair value \$m
Fixed maturity securities - AFS				
- Short-term investments	225.5	–	–	225.5
- Fixed maturity funds	11.4	–	–	11.4
- U.S. treasuries	187.5	0.3	(1.2)	186.6
- Other government bonds	59.8	0.1	(1.2)	58.7
- U.S. municipal bonds	5.4	–	–	5.4
- U.S. government agency debt	88.2	0.4	(0.5)	88.1
- Asset backed securities	131.1	1.0	(2.8)	129.3
- U.S. government agency mortgage backed securities	82.2	0.2	(2.5)	79.9
- Non-agency mortgage backed securities	21.3	–	(0.2)	21.1
- Agency commercial mortgage backed securities	5.3	–	(0.1)	5.2
- Non-agency commercial mortgage backed securities	0.5	–	–	0.5
- Bank loans	114.7	0.1	(5.7)	109.1
- Corporate bonds	528.8	1.0	(8.2)	521.6
Total fixed maturity securities - AFS	1,461.7	3.1	(22.4)	1,442.4
- Fixed maturity securities - at FVTPL	45.7	–	(0.7)	45.0
- Equity securities - AFS	20.0	2.7	–	22.7
- Hedge funds - at FVTPL	143.0	9.3	(3.1)	149.2
- Other investments	–	0.1	(0.4)	(0.3)
Total investments	1,670.4	15.2	(26.6)	1,659.0

⁽¹⁾ Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

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

	30 June 2019 \$m	30 June 2018 \$m	31 December 2018 \$m
Unrealised gains	20.1	7.7	5.8
Unrealised losses	(6.3)	(19.2)	(22.4)
Net foreign exchange gains on AFS securities	2.1	(1.7)	2.1
Tax provision	(0.6)	0.3	0.2
Accumulated other comprehensive income (loss)	15.3	(12.9)	(14.3)

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for the six months ended 30 June 2019 and 30 June 2018 and the year ended 31 December 2018.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines securities classified as Level (i) to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets, for similar assets or liabilities, or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using modelled or other valuation methods.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

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

- Short-term investments;
- Fixed maturity funds;
- Other government bonds;
- U.S. municipal bonds;
- U.S. government agency debt;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Agency commercial mortgage backed securities;
- Non-agency commercial mortgage backed securities;
- Bank loans;
- Corporate bonds; and
- OTC derivatives, such as options, forward foreign exchange contracts, interest rate swaps and credit default swaps.

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. The Group classifies hedge funds as Level (iii) assets as the valuation techniques incorporate both observable and unobservable inputs.

The estimated fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically, estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we do not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

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

As at 30 June 2019	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	132.8	–	–	132.8
- Fixed maturity funds	–	12.3	–	12.3
- U.S. treasuries	169.4	–	–	169.4
- Other government bonds	–	47.4	–	47.4
- U.S. municipal bonds	–	14.2	–	14.2
- U.S. government agency debt	–	76.0	–	76.0
- Asset backed securities	–	112.8	–	112.8
- U.S. government agency mortgage backed securities	–	94.6	–	94.6
- Non-agency mortgage backed securities	–	15.6	–	15.6
- Agency commercial mortgage backed securities	–	3.1	–	3.1
- Bank loans	–	116.1	–	116.1
- Corporate bonds	–	552.8	–	552.8
Total fixed maturity securities - AFS	302.2	1,044.9	–	1,347.1
- Fixed maturity securities - at FVTPL	–	47.3	–	47.3
- Equity securities - AFS	26.2	–	–	26.2
- Hedge funds - at FVTPL	–	–	161.1	161.1
- Other investments	–	(0.4)	–	(0.4)
Total investments	328.4	1,091.8	161.1	1,581.3
<hr/>				
As at 30 June 2018	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	141.4	14.3	–	155.7
- Fixed maturity funds	–	12.4	–	12.4
- U.S. treasuries	205.9	–	–	205.9
- Other government bonds	–	65.2	–	65.2
- U.S. municipal bonds	–	7.1	–	7.1
- U.S. government agency debt	–	100.1	–	100.1
- Asset backed securities	–	142.5	–	142.5
- U.S. government agency mortgage backed securities	–	123.3	–	123.3
- Non-agency mortgage backed securities	–	19.2	–	19.2
- Non-agency commercial mortgage backed securities	–	0.2	–	0.2
- Bank loans	–	113.8	–	113.8
- Corporate bonds	–	512.7	–	512.7
Total fixed maturity securities - AFS	347.3	1,110.8	–	1,458.1
- Fixed maturity securities - at FVTPL	–	45.7	–	45.7
- Equity securities - AFS	23.2	–	–	23.2
- Hedge funds - at FVTPL	–	–	162.7	162.7
- Other investments	–	(0.3)	–	(0.3)
Total investments	370.5	1,156.2	162.7	1,689.4

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

As at 31 December 2018	Level (i) \$m	Level (ii) \$m	Level (iii) \$m	Total \$m
Fixed maturity securities - AFS				
- Short-term investments	216.8	8.7	–	225.5
- Fixed maturity funds	–	11.4	–	11.4
- U.S. treasuries	186.6	–	–	186.6
- Other government bonds	–	58.7	–	58.7
- U.S. municipal bonds	–	5.4	–	5.4
- U.S. government agency debt	–	88.1	–	88.1
- Asset backed securities	–	129.3	–	129.3
- U.S. government agency mortgage backed securities	–	79.9	–	79.9
- Non-agency mortgage backed securities	–	21.1	–	21.1
- Agency commercial mortgage backed securities	–	5.2	–	5.2
- Non-agency commercial mortgage backed securities	–	0.5	–	0.5
- Bank loans	–	109.1	–	109.1
- Corporate bonds	–	521.6	–	521.6
Total fixed maturity securities - AFS	403.4	1,039.0	–	1,442.4
- Fixed maturity securities - at FVTPL	–	45.0	–	45.0
- Equity securities - AFS	22.7	–	–	22.7
- Hedge funds - at FVTPL	–	–	149.2	149.2
- Other investments	–	(0.3)	–	(0.3)
Total investments	426.1	1,083.7	149.2	1,659.0

The table below analyses the movements in hedge funds classified as Level (iii) investments during the six months ended 30 June 2019 and 30 June 2018 and for the year ended 31 December 2018:

	Hedge funds \$m
As at 31 December 2017	154.0
Purchases	15.1
Sales	(11.6)
Total net realised and unrealised gains recognised in profit or loss	5.2
As at 30 June 2018	162.7
Purchases	2.5
Sales	(9.9)
Total net realised and unrealised losses recognised in profit or loss	(6.1)
As at 31 December 2018	149.2
Purchases	12.3
Sales	(5.4)
Total net realised and unrealised gains recognised in profit or loss	5.0
As at 30 June 2019	161.1

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
As at 31 December 2017	933.5	(284.1)	649.4
Net incurred losses for:			
Prior years	(39.6)	(12.2)	(51.8)
Current year	90.7	(6.0)	84.7
Exchange adjustments	(4.1)	0.3	(3.8)
Incurred losses and loss adjustment expenses	47.0	(17.9)	29.1
Net paid losses for:			
Prior years	146.3	(61.8)	84.5
Current year	7.4	(1.5)	5.9
Paid losses and loss adjustment expenses	153.7	(63.3)	90.4
As at 30 June 2018	826.8	(238.7)	588.1
Net incurred losses for:			
Prior years	(84.8)	9.7	(75.1)
Current year	341.1	(133.5)	207.6
Exchange adjustments	(3.1)	0.3	(2.8)
Incurred losses and loss adjustment expenses	253.2	(123.5)	129.7
Net paid losses for:			
Prior years	115.2	(37.3)	77.9
Current year	49.8	(2.0)	47.8
Paid losses and loss adjustment expenses	165.0	(39.3)	125.7
As at 31 December 2018	915.0	(322.9)	592.1
Net incurred losses for:			
Prior years	38.6	(54.5)	(15.9)
Current year	113.4	(24.1)	89.3
Exchange adjustments	2.0	(0.1)	1.9
Incurred losses and loss adjustment expenses	154.0	(78.7)	75.3
Net paid losses for:			
Prior years	173.7	(93.8)	79.9
Current year	11.2	(1.4)	9.8
Paid losses and loss adjustment expenses	184.9	(95.2)	89.7
As at 30 June 2019	884.1	(306.4)	577.7

The split of gross losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

	30 June 2019		30 June 2018		31 December 2018	
	\$m	%	\$m	%	\$m	%
Outstanding losses	352.3	39.9	303.5	36.7	315.2	34.4
Additional case reserves	155.0	17.5	162.5	19.7	210.5	23.0
Losses incurred but not reported	376.8	42.6	360.8	43.6	389.3	42.6
Total	884.1	100.0	826.8	100.0	915.0	100.0

The Group's ceded IBNR balance as at 30 June 2019 amounted to \$175.9 million (30 June 2018 - \$111.2 million, 31 December 2018 - \$156.4 million). The Group's reserve for unpaid losses and loss adjustment expenses for all periods had an estimated duration of approximately two years.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

CLAIMS DEVELOPMENT

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

	30 June 2019	30 June 2018	31 December 2018
Favourable (unfavourable) development	\$m	\$m	\$m
2009 accident year and prior	1.7	11.4	27.0
2010 accident year	2.6	–	1.6
2011 accident year	1.9	3.7	4.7
2012 accident year	0.5	(1.5)	8.8
2013 accident year	0.5	2.3	3.5
2014 accident year	(0.2)	2.0	3.4
2015 accident year	–	5.1	6.6
2016 accident year	9.0	19.8	33.3
2017 accident year	10.0	9.0	38.0
2018 accident year	(10.1)	–	–
Total favourable development	15.9	51.8	126.9

7. DEFERRED TAX

	30 June 2019	30 June 2018	31 December 2018
	\$m	\$m	\$m
Equity based compensation	(2.8)	(2.0)	(2.5)
Claims equalisation reserves	4.8	7.4	6.2
Syndicate underwriting profits	(1.2)	(1.0)	(3.6)
Syndicate participation rights	12.6	12.8	12.7
Other temporary differences	(1.1)	(1.8)	(1.6)
Tax losses carried forward	–	(0.5)	–
Net deferred tax liability	12.3	14.9	11.2

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2019 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2016 reducing the rate to 17.0% from 1 April 2020.

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

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

8. LEASES

The Group leases three properties and several items of office equipment.

Right-of-use assets

For the period ended 30 June 2019 the Group had the following right-of-use assets in relation to leases entered into.

	Property	Equipment	Total
	\$m	\$m	\$m
As at 31 December 2018 and 30 June 2018	–	–	–
Initial recognition on adoption of IFRS 16	16.0	0.4	16.4
Additions	4.4	–	4.4
Depreciation charge for the period	(1.2)	(0.1)	(1.3)
As at 30 June 2019	19.2	0.3	19.5

Lease liabilities

	30 June 2019
	\$m
Due in less than one year	3.5
Due between one and five years	13.2
Due in more than five years	11.5
Total undiscounted lease liabilities	28.2
Total discounted lease liabilities as per the balance sheet	22.5
Current	2.4
Non-current	20.1

The Group does not face a significant liquidity risk with regards to its lease liabilities.

Amounts recognised in profit of loss

	30 June 2019
	\$m
Depreciation of right-of-use assets	1.3
Interest expense on lease liabilities	0.7
Expenses relating to short-term leases and variable leases	0.3
Total	2.3

Total lease payments amounted to \$1.8 million for the period ended 30 June 2019.

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

9. EARNINGS PER SHARE

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

	Six months 2019 \$m	Six months 2018 \$m	Twelve months 2018 \$m
Profit for the period attributable to equity shareholders	39.1	75.8	37.5

	Six months 2019 Number of shares	Six months 2018 Number of shares	Twelve months 2018 Number of shares
Basic weighted average number of shares	201,126,944	200,512,346	200,655,440
Dilutive effect of RSS	1,790,714	1,506,333	1,960,322
Diluted weighted average number of shares	202,917,658	202,018,679	202,615,762

Earnings per share	Six months 2019	Six months 2018	Twelve months 2018
Basic	\$0.19	\$0.38	\$0.19
Diluted	\$0.19	\$0.38	\$0.19

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options, where relevant performance criteria have not been met, are not included in the calculation of dilutive shares.

10. RELATED PARTY DISCLOSURES

KEY MANAGEMENT COMPENSATION

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

	Six months 2019 \$m	Six months 2018 \$m	Twelve months 2018 \$m
Short-term compensation	1.8	1.6	2.3
Equity based compensation	0.6	0.6	1.2
Directors' fees and expenses	1.1	1.0	1.9
Total	3.5	3.2	5.4

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

TRANSACTIONS WITH ASSOCIATE

In 2013 KCML entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the period ended 30 June 2019 the Group recognised \$1.9 million (30 June 2018 - \$2.0 million; 31 December 2018 - \$6.6 million) of service fees and profit commissions in other income in relation to this agreement.

During the period ended 30 June 2019, the Group committed \$6.9 million (30 June 2018 - \$nil; 31 December 2018 - \$35.8 million) of capital to KHL. During the period ended 30 June 2019, KHL returned \$8.9 million of capital to the Group (30 June 2018 - \$20.5 million; 31 December 2018 - \$21.0 million).

NOTES TO THE ACCOUNTS

For the six months ended 30 June 2019

11. COMMITMENTS

As at 30 June 2019 the Group has a commitment of \$100.0 million (30 June 2018 - \$100.0 million; 31 December 2018 - \$100.0 million) relating to two credit facility funds.

12. SUBSEQUENT EVENTS

DIVIDEND

On 24 July 2019 the Board of Directors declared the payment of an interim ordinary dividend of \$0.05 per common share (approximately £0.04 pence per common share) to shareholders of record on 9 August 2019, with a settlement date of 6 September 2019. The total dividend payable, will be approximately \$10.1 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

On 24 July 2019, the Board of Directors approved a \$31.0 million uncollateralised letter of credit facility. The facility is expected to be in place on or around 1 August 2019 and will expire on 31 December 2019. It is available for utilisation by LICL and guaranteed by LHL for FAL purposes.

Statement of Directors' responsibilities

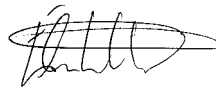
The Directors confirm to the best of their knowledge, that the unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the EU and where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, U.S GAAP have been considered and the interim management report herein includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, being:

- an indication of important events during the first six months of 2019 and their impact on the unaudited condensed interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- related party transactions that have taken place in the first six months of 2019 and that have materially affected the consolidated financial position or performance of LHL during that period, and any changes in the related party transactions described in the last Annual Report and Accounts that could have such a material effect.

The Directors also confirm that, in view of the unaudited condensed interim consolidated financial statements and the information contained within the interim management report, the business is a going concern. The Directors of the Company are listed on pages 50-51 of the LHL 2018 Annual Report and Accounts. The individuals responsible for authorising the responsibility statement on behalf of the Board on 24 July 2019 are:



Peter Clarke
Director/Chairman



Elaine Whelan
Director/CFO

INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Conclusion

We have been engaged by the Company to review the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows, the risk and other disclosures and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim consolidated financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in the basis of preparation on page 13 the annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of interim consolidated financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of interim consolidated financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.



Rees Aronson
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
E14 5GL
24 July 2019

Glossary

Accident year loss ratio

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

Additional case reserves (ACR)

Additional reserves deemed necessary by management

AFS

Available for sale

AIM

A sub-market of the LSE

A.M. Best Company (A.M. Best)

A.M Best is a full-service credit rating organisation dedicated to serving the financial services industries, focusing on the insurance sector

Board of Directors, Board

Unless otherwise stated refers to the LHL Board of Directors

Book value per share (BVS)

Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BSX

Bermuda Stock Exchange

Cathedral; Cathedral Group

Refers to CCL and all direct and indirect subsidiaries of CCL

Ceded

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

CEO

Chief Executive Officer

CFO

Chief Financial Officer

Combined ratio

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

Deferred acquisition costs

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

Diluted earnings per share

Calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity based compensation awards into common shares under the treasury stock method

Directors fees and expenses

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

Duration

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

Earnings per share (EPS)

Calculated by dividing net profit for the period attributable to shareholders by the weighted average number of common shares outstanding during the period, excluding treasury shares and shares held by the EBT

EBT

Lancashire Holdings Employee Benefit Trust

EU

European Union

FAL

Funds at Lloyd's

Fully converted book value per share (FCBVS)

Calculated based on the value of the total shareholders' equity attributable to the Group and dilutive restricted stock units as calculated under the treasury method, divided by the sum of all shares and dilutive restricted stock units, assuming all are exercised

FVTPL

Fair value through profit or loss

Gross premiums written

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

The Group or the Lancashire Group

LHL and its subsidiaries

IFRS

International Financial Reporting Standard(s)

Incurred but not reported (IBNR)

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

International Accounting Standard(s) (IAS)

Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)

An international panel of accounting experts responsible for developing IAS and IFRS

IRR

Internal rate of return

KCML

Kinesis Capital Management Limited

KCMMSL

KCM Marketing Services Limited

Glossary

KHL

Kinesis Holdings I Limited

Kinesis

The Group's third party capital management division encompassing KCML, KCMMSL and the management of KHL and KRL

LHL

Lancashire Holdings Limited

LICL

Lancashire Insurance Company Limited

Lloyd's

The Society of Lloyd's

Losses

Demand by an insured for indemnity under an insurance contract

LSE

London Stock Exchange

LUK

Lancashire Insurance Company (UK) Limited

Moody's Investor Service (Moody's)

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

NAV

Net asset value

Net acquisition cost ratio

Ratio, in per cent, of net insurance acquisition expenses to net premiums earned

Net expense ratio

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

Net loss ratio

Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums written

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

OTC

Over the counter

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

RPI

Renewal Price Index

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

Syndicate 2010

Lloyd's Syndicate 2010, managed by CUL. The Group provides capital to support 57.8 per cent of the stamp

Syndicate 3010

Lloyd's Syndicate 3010, managed by CUL. The Group provides capital to support 100.0 per cent of the stamp

Unearned premiums

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

UK

United Kingdom

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

Note regarding forward-looking statements

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR HURRICANE MICHAEL AND THE WILDFIRES WHICH IMPACTED PARTS OF CALIFORNIA DURING THE FOURTH QUARTER OF 2018, HURRICANE FLORENCE, THE TYPHOONS AND MARINE LOSSES THAT OCCURRED IN THE THIRD QUARTER OF 2018, HURRICANES HARVEY, IRMA AND MARIA AND THE EARTHQUAKES IN MEXICO THAT OCCURRED IN THE THIRD QUARTER OF 2017 AND THE WILDFIRES WHICH IMPACTED PARTS OF CALIFORNIA DURING THE FOURTH QUARTER OF 2017; THE IMPACT OF COMPLEX AND UNIQUE CAUSATION AND COVERAGE ISSUES ASSOCIATED WITH ATTRIBUTION OF LOSSES TO WIND OR FLOOD DAMAGE OR OTHER PERILS SUCH AS FIRE OR BUSINESS INTERRUPTION RELATING TO SUCH EVENTS; POTENTIAL UNCERTAINTIES RELATING TO REINSURANCE RECOVERIES, REINSTATEMENT PREMIUMS AND OTHER FACTORS INHERENT IN LOSS ESTIMATION; THE GROUP’S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP’S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP; THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP’S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING ‘SOFT’ AS WELL AS ‘HARD’ MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP’S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP’S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP’S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP’S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP’S OPERATING SUBSIDIARIES’ RATING WITH A.M. BEST, S&P GLOBAL RATINGS, MOODY’S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED MATURITY INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES, CURRENCY EXCHANGE RATES AND SECURITIES PRICES; CHANGES BY CENTRAL BANKS REGARDING THE LEVEL OF INTEREST RATES; THE IMPACT OF INFLATION OR DEFLATION IN RELEVANT ECONOMIES IN WHICH THE GROUP OPERATES; THE EFFECT, TIMING AND OTHER UNCERTAINTIES SURROUNDING FUTURE BUSINESS COMBINATIONS WITHIN THE INSURANCE AND REINSURANCE INDUSTRIES; THE IMPACT OF TERRORIST ACTIVITY IN THE COUNTRIES IN WHICH THE GROUP WRITES RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN THE GROUP’S INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; LANCASHIRE OR ANY OF THE GROUP’S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR IN THE UNITED KINGDOM; THE IMPACT OF THE CHANGE IN TAX RESIDENCE ON STAKEHOLDERS OF THE COMPANY; AND THE IMPACT OF “BREXIT” (FOLLOWING THE UK’S NOTIFICATION TO THE EUROPEAN COUNCIL UNDER ARTICLE 50 OF THE TREATY ON EUROPEAN UNION ON 29 MARCH 2017) AND FUTURE NEGOTIATIONS REGARDING THE UK’S RELATIONSHIP WITH THE EU ON THE GROUP’S BUSINESS, REGULATORY RELATIONSHIPS, UNDERWRITING PLATFORMS OR THE INDUSTRY GENERALLY.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGES IN THE GROUP’S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE GROUP OR INDIVIDUALS ACTING ON BEHALF OF THE GROUP ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS NOTE. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS RELEASE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.