LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 6.9% YEAR TO DATE
COMBINED RATIO OF 86.6% YEAR TO DATE
INTERIM DIVIDEND OF $0.05 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $5.52 AS AT 30 JUNE 2019

25 July 2019
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the six months ended 30 June 2019.

Financial highlights

	30 June 2019	30 June 2018
Fully converted book value per share	**$5.52**	**$5.70**
Return on equity[1]– YTD	**6.9%**	**5.9%**
Return on tangible equity[2] – YTD	**7.9%**	**6.9%**
Operating return on average equity – YTD	**3.9%**	**6.9%**
Dividends per common share for the financial year[3]	**$0.05**	**$0.05**

[1] Return on equity is defined as the change in fully converted book value per share, adjusted for dividends.
[2] Return on tangible equity excludes goodwill and other intangible assets.
[3] See "Dividends" below for Record Date and Dividend Payment Date.

	Six months ended	
	30 June 2019	**30 June 2018**
Highlights ($m)		
Gross premiums written	429.6	392.5
Net premiums written	222.6	234.0
Profit before tax	40.5	74.9
Profit after tax[1]	39.1	75.8
Comprehensive income[1]	68.7	64.4
Net operating profit[1]	42.9	78.3
Per share data		
Diluted earnings per share	$0.19	$0.38
Diluted earnings per share - operating	$0.21	$0.39
Financial ratios		
Total investment return (including internal currency hedging)	3.2%	0.3%
Net loss ratio	34.5%	15.1%
Combined ratio	86.6%	67.1%
Accident year loss ratio	40.5%	38.7%

[1] These amounts 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 30 June 2019	30 June 2018	Change	Change	RPI
	$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.

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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.

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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.

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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.

The table below provides further detail of the 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 2019 and 2018:

	Six months ended 30 June 2019 $m	Six months ended 30 June 2018 $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:

	As at 30 June 2019 $m	As at 31 December 2018 $m	As at 30 June 2018 $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 represented 32.6% of managed invested assets at 30 June 2019 compared to 28.0% at 30 June 2018.

The managed portfolio was as follows:

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

Key investment portfolio statistics were:

	As at 30 June 2019	As at 31 December 2018	As at 30 June 2018
Duration	1.8 Years	1.5 years	1.6 years
Credit quality	A+	A+	AA-
Book yield	2.7%	2.7%	2.3%
Market yield	2.4%	3.1%	2.8%

Lancashire Third Party Capital Management

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

	Six months ended	
	30 June 2019 $m	30 June 2018 $m
Kinesis underwriting fees	1.9	2.0
Lloyd's fees & profit commission	0.9	0.8
Total other income	**2.8**	**2.8**
Share of profit (loss) of associate	0.1	(2.4)
Total net 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 $m	Six months ended 30 June 2018 $m
Employee remuneration 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.

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.

Financial Information

The Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2019 are published on Lancashire's website at www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 9:00am Bermuda time / 8:00am EDT on Thursday 25 July 2019. The conference call will be hosted by Lancashire management.

Participant Access:
Dial in 5-10 minutes prior to the start time using the number / confirmation code below:

United Kingdom - Toll free:	08003589473
United Kingdom Toll:	+44 3333000804
United States Toll free:	+1 855 85 70686
United States Toll:	+1 6319131422
Confirmation Code:	80359966#

URL for additional international dial in numbers:
https://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf

The call can also be accessed via webcast, for registration and access:
https://event.on24.com/wcc/r/2031991/944538E12AEEFBB48C4E745927C97CB1

A webcast replay facility will be available for 12 months and accessible at:
https://www.lancashiregroup.com/en/investors/results-reports-and-presentations.html

For further information, please contact:

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About Lancashire

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

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

(1) Financial Strength Rating and Financial Strength Outlook apply 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).

Lancashire has capital of approximately $1.4 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its head office and registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information, please visit Lancashire's website at www.lancashiregroup.com.

The Bermuda Monetary Authority ("BMA") is the Group Supervisor of the Lancashire Group with effect from 1 January 2019.

Lancashire Insurance Company Limited is regulated by the BMA, with its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA, with its registered office at Level 29, 20 Fenchurch Street, London EC3M 3BY, United Kingdom.

Cathedral Underwriting Limited is authorised by the PRA and regulated by the FCA and the PRA. It is also authorised and regulated by Lloyd's, with its registered office at Level 29, 20 Fenchurch Street, London EC3M 3BY, United Kingdom.

Kinesis Capital Management Limited is regulated by the BMA, with its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

This release contains information, which may be of a price sensitive nature that Lancashire is making public in a manner consistent with the EU Market Abuse Regulation and other regulatory obligations. The information was submitted for publication, through the agency of the contact persons set out above, at 07:00 BST on 25 July 2019.

Alternative Performance Measures

As is customary in the insurance industry, the Group also utilises certain non-GAAP measures ("**Alternative Performance Measures**" or "**APMs**") in order to evaluate, monitor and manage the business and to aid users' understanding of the Group. In compliance with the Guidelines on APMs of the European Securities and Markets Authority, we give information on APMs in the table below. This information has not been audited.

Management believes that the APMs included in this release and accompanying supplementary materials are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the industry. However, these measures may not be comparable to similarly labeled measures used by companies inside or outside the insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with GAAP.

The following APMs included in this release and accompanying supplementary materials have not been prepared in accordance with the accounting principles used by the Group for its audited and / or interim consolidated financial statements. Below is an explanation of the definition of these APMs as well as information regarding their relevance:

APM	Definition	Relevance
Net loss ratio	Ratio, in per cent, of net insurance losses to net premiums earned.	This ratio gives an indication of the amount of claims expected to be paid out per $1.00 of net premium earned in the financial year.
Net acquisition cost ratio	Ratio, in per cent, of net insurance acquisition expenses to net premiums earned.	This ratio gives an indication of the amount expected to be paid out to insurance brokers and other insurance intermediaries per $1.00 of net premium earned in the financial year
Net expense ratio	Ratio, in per cent, of other operating expenses, excluding restricted stock expenses, to net premiums earned.	This ratio gives an indication of the amount of operating expenses expected to be paid out per $1.00 of net premium earned in the financial year.
Accident year loss ratio	The accident year loss ratio is calculated using the accident year ultimate liability re-valued at the current balance sheet date, divided by net premiums earned.	This ratio shows the amount of claims expected to be paid out per $1.00 of net premium earned in an accident year.
Combined ratio	Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net premiums earned.	The Group aims to price its business to ensure that the combined ratio across the cycle is significantly less than 100 per cent.
Fully converted book value per share ("**FCBVS**") attributable to the Group	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.	Shows the Group's net asset value on a diluted per share basis for comparison to the market value per share.
Return on equity ("**RoE**") (RoE is also sometimes referred to as the change in FCBVS adjusted for dividends)	The internal rate of return of the change in FCBVS in the period, plus dividends accrued. Tangible RoE attributable to the Group excludes intangible assets from capital.	The Group's aim is to maximise risk adjusted returns for its shareholders across the cycle.

Operating return on average equity	Calculated as the net operating income (loss), divided by the average equity over the period, adjusted for dividends declared. Net operating income (loss) excludes; realised gains and losses net of impairments, foreign exchange and tax.	This metric gives an indication of the average percentage return generated by the Group's core business.
Total investment return	Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group’s managed investment portfolio.	The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework the Group aims for a degree of investment portfolio return.

NOTE REGARDING RPI METHODOLOGY

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL METHODOLOGY THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI WRITTEN BY THE LANCASHIRE COMPANIES IN THE RESPECTIVE SEGMENTS IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI METHODOLOGY, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

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.

Consolidated statement of comprehensive income

	Six months 2019 $m	Six months 2018 $m
Gross premiums written	429.6	392.5
Outwards reinsurance premiums	(207.0)	(158.5)
Net premiums written	**222.6**	**234.0**
Change in unearned premiums	(104.2)	(87.5)
Change in unearned premiums on premiums ceded	94.3	71.6
Net premiums earned	**212.7**	**218.1**
Net investment income	19.6	15.9
Net other investment income	7.3	3.1
Net realised (losses) gains and impairments	(0.2)	(2.0)
Share of profit (loss) of associate	0.1	(2.4)
Other income	2.8	2.8
Net foreign exchange losses	(2.3)	(1.4)
Total net revenue	**240.0**	**234.1**
Insurance losses and loss adjustment expenses	152.0	51.1
Insurance losses and loss adjustment expenses recoverable	(78.6)	(18.2)
Net insurance acquisition expenses	59.9	62.7
Equity based compensation	3.8	3.8
Other operating expenses	50.8	50.8
Total expenses	**187.9**	**150.2**
Results of operating activities	**52.1**	**83.9**
Financing costs	11.6	9.0
Profit before tax	**40.5**	**74.9**
Tax (charge) credit	(1.4)	0.8
Profit after tax	**39.1**	**75.7**
Non-controlling interests	–	0.1
Profit after tax attributable to Lancashire	**39.1**	**75.8**
Net change in unrealised gains/losses on investments	30.4	(11.6)
Tax (charge) credit on net change in unrealised gains/losses on investments	(0.8)	0.2
Other comprehensive income (loss)	**29.6**	**(11.4)**
Total comprehensive income attributable to Lancashire	**68.7**	**64.4**
Net loss ratio	34.5%	15.1%
Net acquisition cost ratio	28.2%	28.7%
Administrative expense ratio	23.9%	23.3%
Combined ratio	86.6%	67.1%
Basic earnings per share	$ 0.19	$ 0.38
Diluted earnings per share	$ 0.19	$ 0.38
Change in fully converted book value per share	6.9%	5.9%

Consolidated balance sheet

	As at 30 June 2019	As at 30 June 2018	As at 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	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	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 asset	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	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	12.3	14.9	11.2
Interest rate swap	1.4	0.1	0.4
Lease liability	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)	15.3	(12.9)	(14.3)
Retained earnings	141.9	209.4	120.9
Total shareholders' equity attributable to equity shareholders of Lancashire	**1,120.8**	**1,152.8**	**1,067.2**
Non-controlling interest	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**
Basic book value per share	$5.57	$5.74	$5.31
Fully converted book value per share	$5.52	$5.70	$5.26

Consolidated statements of cash flows

	Six months 2019 $m	Six months 2018 $m	Twelve months 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 finance leases	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 loss (profit) loss of associate	(0.1)	2.4	7.1
Net other investment (income) losses	(7.3)	(3.1)	3.9
Net realised losses (gains) and impairments	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	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	(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 the beginning of year	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**