# LANCASHIRE HOLDINGS LIMITED

## GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 3.8% IN Q1 2016
## COMBINED RATIO OF 72.7% IN Q1 2016
## FULLY CONVERTED BOOK VALUE PER SHARE OF $6.20 AS AT 31 MARCH 2016

5 May 2016
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the three months ended 31 March 2016.

**Financial highlights**

| | 31 March 2016 | 31 March 2015 |
|---|---|---|
| **Fully converted book value per share** | **$6.20** | **$6.52** |
| **Return on equity[1] – Q1** | **3.8%** | **4.3%[2]** |
| **Return on tangible equity[3] – Q1** | **4.5%** | **2.3%** |
| **Operating return on average equity – Q1** | **2.6%** | **3.8%** |
| **Final dividend per common share[4]** | **$0.10** | **$0.10** |
| **Special dividends per common share[4]** | **-** | **$0.50** |

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on equity including warrant exercises was 2.3%. All remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity.
[3] Return on equity excluding goodwill and other intangible assets.
[4] See "Dividends" below for Record Date and Dividend Payment Date.

**Financial highlights:**

| | Three months ended 31 March 2016 | Three months ended 31 March 2015 |
|---|---|---|
| ***Highlights ($m)*** | | |
| Gross premiums written | 230.8 | 244.3 |
| Net premiums written | 121.6 | 129.2 |
| Profit before tax | 26.5 | 51.5 |
| Profit after tax[5] | 28.3 | 53.7 |
| Comprehensive income[5] | 43.1 | 62.7 |
| Net operating profit[5] | 32.4 | 52.1 |
| ***Per share data*** | | |
| Diluted earnings per share | $0.14 | $0.28 |
| Diluted earnings per share – operating | $0.16 | $0.27 |
| ***Financial ratios*** | | |
| Total investment return including internal FX hedges | 0.7% | 1.0% |
| Total investment return excluding internal FX hedges | 0.8% | 0.7% |
| Net loss ratio | 29.6% | 29.2% |
| Combined ratio | 72.7% | 72.0% |
| Accident year loss ratio | 42.5% | 45.4% |

[5] These amounts are attributable to Lancashire and exclude non-controlling interests.

**Peter Clarke, Chairman of Lancashire, commented:**

"Following my appointment as Chairman at the conclusion of yesterday's AGM, I would like to thank Martin Thomas for his work as Chairman of Lancashire over nine years. During that time his contribution has been central in building a Board and establishing a business which has delivered high standards of service to its clients and strong returns to its investors and stakeholders. I look forward to working with Alex, the management team and the Board in ensuring that our strategy and focus remains appropriate to build on the successes which Lancashire has achieved to date and to meet the challenges and opportunities that lie ahead."

**Alex Maloney, Group Chief Executive Officer, commented:**

"The RoE for the first quarter of 3.8% is a strong result. I am pleased that we have managed to defend our core book of business, with premium income at a similar level to a year ago.

In what remains a very tough underwriting environment, brokers are looking for quality of service and security and are increasingly tiering the insurance market on that basis. Whether in Bermuda, London or at Lloyd's, our Group platforms are valued for their ability to provide excellent client service in those lines in which we specialise, and we are fortunately seeing opportunities not only to maintain but also to build our participation on some of our core books of business. This has helped insulate our business from some of the chillier blasts faced by the smaller following markets.

As is often the case there are periodically natural developments in the life cycle of any business and change brings with it opportunity. As we have separately announced, I would like to welcome Heather McKinlay as Cathedral Chief Financial Officer (subject to regulatory approval). She will join the Group later this month. In addition, I have been particularly pleased to see the next generation within our Cathedral team stepping up to new roles and opportunities. It is one of my priorities during the coming year to foster greater integration between our Lancashire and Cathedral businesses and, where it makes sense, to deploy the genuine bench strength found in particular parts of our business to benefit the wider Group.

Finally, I would like to thank Martin Thomas for his major contribution to Lancashire since its foundation, and on a personal level for his insight, support and encouragement. I wish him well for the future."

**Elaine Whelan, Group Chief Financial Officer, commented:**

"With a fairly quiet first quarter on the loss front, we produced a strong return on equity of 3.8%. Our loss ratio was 29.6% and our combined ratio for the quarter was 72.7%.With significant volatility in the investment markets, our portfolio held up well and returned 0.7%. Cathedral contributed 1.2% to our RoE.

Price reductions on our January and April renewals were broadly in line with our expectations on both the inwards and the outwards books. Although the market continues to be challenging, we remain well able to maintain our core portfolio. However, absent a market changing event, there is no reason to believe pricing will improve in the near term, and it is therefore more likely that we'll return capital than retain it later in the year.

While we clearly don't anticipate any need to raise capital in the current market, I'd like to thank our shareholders for continuing to appreciate our need for flexibility to manage the cycle with their approval of the issue of up to 15% of our share capital on a non-pre-emptive basis at our AGM yesterday."

**Renewal Price Index for major classes**

The Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects our assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business, to offer a consistent basis for analysis. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2015, with our Lloyd's segment shown separately in order to aid comparability:

| **Class** | **Q1 2016** |
|---|---|
| Aviation (AV52) | 90% |
| Gulf of Mexico energy | 86% |
| Energy offshore worldwide | 87% |
| Marine | 92% |
| Property retrocession and reinsurance | 93% |
| Terrorism | 86% |
| **Combined Lancashire, excluding Lloyd's** | **90%** |

| **Class** | **Q1 2016** |
|---|---|
| Aviation | 97% |
| Energy | 86% |
| Marine | 97% |
| Property retrocession and reinsurance | 94% |
| Terrorism | 91% |
| **Combined Lloyd's** | **95%** |

**Underwriting results**

**Gross premiums written**

| | **Q1 2016 $m** | **Q1 2015 $m** | **Change $m** | **Change %** |
|---|---|---|---|---|
| Property | 88.6 | 76.8 | 11.8 | 15.4 |
| Energy | 30.8 | 36.6 | (5.8) | (15.8) |
| Marine | 16.3 | 22.3 | (6.0) | (26.9) |
| Aviation | 11.4 | 11.0 | 0.4 | 3.6 |
| Lloyd's | 83.7 | 97.6 | (13.9) | (14.2) |
| **Total** | **230.8** | **244.3** | **(13.5)** | **(5.5)** |

Gross premiums written decreased by 5.5% in the first quarter of 2016 compared to the same period in 2015, with the largest dollar reduction in the Lloyd's segment. For the other classes, the increase in property premiums was offset by reductions in the energy and marine classes. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 15.4% for the first quarter of 2016 compared to the same period in 2015. The majority of the increase was driven by new business in the political risk class. Business flow in that class can be less predictable than other classes of business. While most other property classes are broadly in line with the prior year, we saw a slight increase in the property catastrophe excess of loss class. Although property catastrophe rates continue to experience pressure, the majority of the book renewed and some new business was added. Timing of multi-year contract renewals in the property catastrophe excess of loss class also had a small positive impact on the quarter.

Energy gross premiums written decreased by 15.8% for the first quarter of 2016 compared to the same period in 2015. The first quarter is not typically a major renewal period for the energy book. While premium volumes were marginally down across most energy classes, the majority of that was in the energy construction class. While it has been significantly impacted by the fall in oil prices, this represents a small line of business for the Group. The minor reductions in the energy offshore books were driven by continued price and exposure reductions, also due to the drop in oil prices.

Marine gross premiums written decreased by 26.9% for the first quarter of 2016 compared to the same period in 2015. The first quarter is not a major renewal period for the marine segment. While pricing pressure continues due to overcapacity, the reduction is mainly driven by the timing of non-annual contract renewals plus a reduction in prior underwriting year risk-attaching business due to changes in underlying exposure.

Aviation gross premiums written in the first quarter of 2016 were consistent with the first quarter of 2015, albeit with increases in AV52 offsetting reductions in the satellite book. As for the energy and marine classes, the first quarter is not a major renewal period for the aviation class. The increase on the AV52 book is due to the timing of non-annual contract renewals and an increase in prior underwriting year risk-attaching business. The reduction in satellite is due to the timing of launches on contracts written in prior years.

In the Lloyd's segment gross premiums written decreased by 14.2% for the first quarter of 2016 compared to the same period in 2015. While there were reductions in most lines of business, the majority of the decrease was driven by the property books, where rates continue to come under pressure due to overcapacity in the market.

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Ceded reinsurance premiums decreased by $5.9 million, or 5.1%, for the first quarter of 2016 compared to the same period in 2015. The decrease during the first quarter of 2016 is primarily driven by the timing of some cover plus a further reduction in rates. In addition, the first quarter of 2015 included reinstatement premiums in relation to the settlement of a Thai flood claim.

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Net premiums earned as a proportion of net premiums written were 112.8% in the first quarter of 2016 compared to 119.3% for the same period in 2015. The decrease is due to a higher proportion of multi-year deals written in 2014 than 2015.

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The Group's net loss ratio for the first quarter of 2016 was 29.6% compared to 29.2% for the same period in 2015. The accident year loss ratio for the first quarter of 2016, including the impact of foreign exchange revaluations, was 42.5% compared to 45.4% for the same period in 2015. While there were no significant losses in either quarter, we experienced a few mid-sized energy claims in both quarters.

Prior year favourable development for the first quarter of 2016 was $17.7 million, compared to $26.0 million for the first quarter of 2015. Favourable development was driven by general IBNR releases across most lines of business, offset somewhat by adverse development on prior accident year mid-sized energy and marine claims. The first quarter of 2015 included a recovery on our 2011 Thai flood loss on the settlement of a claim.

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

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| Property | 12.0 | 14.4 |
| Energy | 6.9 | 8.8 |
| Marine | (0.8) | 1.6 |
| Aviation | 1.4 | (1.0) |
| Lloyd's | (1.8) | 2.2 |
| **Total** | **17.7** | **26.0** |

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2016 and 2015:

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| 2006 accident year and prior | - | 0.2 |
| 2007 accident year | (0.3) | 0.1 |
| 2008 accident year | 0.5 | (3.1) |
| 2009 accident year | 0.3 | 1.6 |
| 2010 accident year | - | (3.2) |
| 2011 accident year | 1.0 | 13.9 |
| 2012 accident year | 1.6 | (0.2) |
| 2013 accident year | 2.6 | 7.5 |
| 2014 accident year | 4.4 | 9.2 |
| 2015 accident year | 7.6 | - |
| **Total** | **17.7** | **26.0** |

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 32.6% at 31 March 2016 compared to 32.7% at 31 March 2015.

**Investments**

Net investment income, excluding realised and unrealised gains and losses, was $7.5 million for the first quarter of 2016, a decrease of 1.3% from the first quarter of 2015. 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 $13.0 million for the first quarter of 2016 compared to $21.4 million for the first quarter of 2015.

The investment portfolio returned 0.7% during the first quarter compared to 1.0% for the same period in 2015. Returns were derived primarily from the Group's fixed maturity portfolio as a result of the significant decline in treasury yields, with performance across the rest of our portfolio largely offsetting. The slightly stronger return generated in 2015 was due to strong positive returns in our hedge fund and bank loan portfolios, plus positive returns from the fixed maturity portfolio due to a decline in treasury yields, albeit an overall smaller drop in yields than the first quarter of 2016.

The corporate bond allocation represented 34.9% of managed invested assets at 31 March 2016 compared to 31.7% at 31 March 2015.

The managed portfolio was as follows:

| | As at 31 March 2016 | As at 31 March 2015 |
|---|---|---|
| Fixed maturity securities | 82.3% | 80.0% |
| Cash and cash equivalents | 9.3% | 11.8% |
| Hedge funds | 7.6% | 7.5% |
| Equity securities | 0.8% | 0.7% |
| **Total** | **100.0%** | **100.0%** |

Key investment portfolio statistics are:

| | As at 31 March 2016 | As at 31 March 2015 |
|---|---|---|
| Duration | 1.6 years | 1.5 years |
| Credit quality | A+ | AA- |
| Book yield | 1.7% | 1.5% |
| Market yield | 1.7% | 1.4% |

**Lancashire Capital Management**

The $1.3 million share of profit of associate for the first quarter of 2016 and the $0.7 million for the first quarter of 2015 reflect Lancashire's 10% equity interest in the Kinesis vehicle.

Other income consists of the following items:

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| Kinesis underwriting fees | 0.5 | 0.7 |
| Kinesis profit commission | 1.8 | 5.1 |
| Lloyd's managing agency fees | 0.3 | 0.4 |
| **Total** | **2.6** | **6.2** |

The lower Kinesis profit commission in the first quarter of 2016 compared to the first quarter of 2015 is due to the timing of confirmation of loss quantum and the resulting release of collateral held.

**Other operating expenses**

Operating expenses consist of the following items:

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| Employee costs | 16.5 | 14.8 |
| Other operating expenses | 9.2 | 12.0 |
| **Total** | **25.7** | **26.8** |

Employee remuneration costs were $1.7 million higher in the first quarter of 2016 than the same period in the prior year. With the recent announcement of the incumbent Active Underwriter of Cathedral leaving the Group, an additional compensation expense was recorded in the quarter.

Other operating expenses were $2.8 million lower in the first quarter of 2016 compared to the same period in the prior year mainly due to lower consulting costs and lower IT project expenses.

Equity based compensation was $3.6 million in the first quarter of 2016 compared to $4.4 million in the same period last year. The equity based compensation charge is driven by the anticipated vesting level of active awards based on current performance expectations. The decrease compared to the prior year was primarily due to the lapsing of restrictive share scheme awards of the former CEO and CFO of Cathedral on their departure from the Group.

**Capital**

At 31 March 2016, total capital available to Lancashire was $1.570 billion, comprising shareholders' equity of $1.246 billion and $323.7 million of long-term debt. Tangible capital was $1.416 billion. Leverage was 20.6% on total capital and 22.9% on total tangible capital. Total capital and total tangible capital at 31 March 2015 were $1.624 billion and $1.470 billion respectively.

**Dividends**

During the first quarter of 2016, the Lancashire Board of Directors declared a final dividend in respect of 2015 of $0.10 (£0.07) per common share. The dividends, totalling $19.8 million, were paid on 23 March 2016 to shareholders of record on 26 February 2016.

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

**Financial information**

**Further details of our 2016 first quarter results can be obtained from our Financial Supplement. This can be accessed via our website 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 / 8:00am EDT on Thursday, 5th May 2016. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44(0)20 3427 1901 / +1 212 444 0481 with the confirmation code 1775420. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A telephone replay facility will be available for 30 days. The dial in number for the replay facility is +44(0)20 3427 0598 / +1 347 366 9565 with replay passcode 1775420. A webcast replay facility will also be accessible at www.lancashiregroup.com

For further information, please contact:


**Lancashire Holdings Limited**

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Group's website www.lancashiregroup.com.

**About Lancashire**

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) | **Financial Strength Outlook**(1) | **Long Term Issuer Rating** (2) |
|---|---|---|---|
| A.M. Best | A (Excellent) | Stable | bbb |
| Standard & Poor's | 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); Standard & Poor's: A+ (Strong); and Fitch: AA- (Very Strong).

Lancashire has capital in excess of $1.5 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 corporate headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire and Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), visit Lancashire's website at www.lancashiregroup.com

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

Kinesis Capital Management Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Cathedral Underwriting Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK. It is also authorised and regulated by Lloyd's.

**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 PROPERTY, ENERGY, MARINE AND AVIATION 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 MODELED 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, 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 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, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST 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 WE OPERATE; 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 WE WRITE RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; AND ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES.

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 STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

**Consolidated statement of comprehensive income**
(Unaudited)

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| Gross premiums written | 230.8 | 244.3 |
| Outwards reinsurance premiums | (109.2) | (115.1) |
| **Net premiums written** | **121.6** | **129.2** |
| Change in unearned premiums | (58.9) | (51.2) |
| Change in unearned premiums on premiums ceded | 74.5 | 76.2 |
| **Net premiums earned** | **137.2** | **154.2** |
| Net investment income | 7.5 | 7.6 |
| Net other investment (losses) income | (1.4) | 5.0 |
| Net realised (losses) gains and impairments | (7.9) | (0.2) |
| Share of profit of associate | 1.3 | 0.7 |
| Other income | 2.6 | 6.2 |
| Net foreign exchange losses | (0.5) | (0.9) |
| **Total net revenue** | **138.8** | **172.6** |
| Insurance losses and loss adjustment expenses | 47.1 | 58.9 |
| Insurance losses and loss adjustment expenses recoverable | (6.5) | (13.8) |
| Net insurance acquisition expenses | 33.5 | 39.2 |
| Equity based compensation | 3.6 | 4.4 |
| Other operating expenses | 25.7 | 26.8 |
| **Total expenses** | **103.4** | **115.5** |
| **Results of operating activities** | **35.4** | **57.1** |
| Financing costs | 8.9 | 5.6 |
| **Profit before tax** | **26.5** | **51.5** |
| Tax credit | 1.9 | 2.5 |
| **Profit after tax** | **28.4** | **54.0** |
| Non-controlling interests | (0.1) | (0.3) |
| **Profit after tax attributable to Lancashire** | **28.3** | **53.7** |
| Net change in unrealised gains/losses on investments | 15.2 | 9.2 |
| Tax provision on net change in unrealised gains/losses on investments | (0.4) | (0.2) |
| **Other comprehensive income** | **14.8** | **9.0** |
| **Total comprehensive income attributable to Lancashire** | **43.1** | **62.7** |
| Net loss ratio | 29.6% | 29.2% |
| Net acquisition cost ratio | 24.4% | 25.4% |
| Administrative expense ratio | 18.7% | 17.4% |
| **Combined ratio** | **72.7%** | **72.0%** |
| Basic earnings per share | $0.14 | $0.28 |
| Diluted earnings per share | $0.14 | $0.28 |
| Change in fully converted book value per share | 3.8% | 4.3%* |

* Return on equity including warrant exercises was 2.3%, all remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity

## Consolidated balance sheet
(Unaudited)

| | As at 31 March 2016 $m | As at 31 March 2015 $m |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 297.3 | 475.5 |
| Accrued interest receivable | 6.8 | 7.4 |
| Investments | 1,771.7 | 1,846.1 |
| Inwards premiums receivable from insureds and cedants | 334.4 | 368.6 |
| Reinsurance assets | | |
| -Unearned premiums on premiums ceded | 104.7 | 100.9 |
| -Reinsurance recoveries | 88.2 | 97.6 |
| -Other receivables | 2.9 | 7.8 |
| Other receivables | 42.7 | 77.4 |
| Investment in associate | 23.2 | 26.7 |
| Property, plant and equipment | 6.6 | 8.7 |
| Deferred acquisition costs | 95.7 | 110.6 |
| Intangible assets | 153.8 | 153.8 |
| **Total assets** | **2,928.0** | **3,281.1** |
| **Liabilities** | | |
| Insurance contracts | | |
| -Losses and loss adjustment expenses | 679.1 | 735.2 |
| -Unearned premiums | 458.1 | 530.3 |
| -Other payables | 38.2 | 38.2 |
| Amounts payable to reinsurers | 72.8 | 81.5 |
| Deferred acquisition costs ceded | 1.3 | 1.1 |
| Other payables | 75.4 | 233.6 |
| Corporation tax payable | 1.9 | 2.2 |
| Deferred tax liability | 23.6 | 28.2 |
| Interest rate swap | 7.7 | 6.0 |
| Long-term debt | 323.7 | 321.9 |
| **Total liabilities** | **1,681.8** | **1,978.2** |
| **Shareholders' equity** | | |
| Share capital | 100.7 | 100.2 |
| Own shares | (28.7) | (33.5) |
| Other reserves | 881.6 | 874.8 |
| Accumulated other comprehensive income | 4.3 | 9.8 |
| Retained earnings | 288.2 | 350.8 |
| **Total shareholders' equity attributable to equity shareholders of LHL** | **1,246.1** | **1,302.1** |
| Non-controlling interest | 0.1 | 0.8 |
| **Total shareholders' equity** | **1,246.2** | **1,302.9** |
| **Total liabilities and shareholders' equity** | **2,928.0** | **3,281.1** |
| | | |
| Basic book value per share | $6.28 | $6.61 |
| Fully converted book value per share | $6.20 | $6.52 |

## Consolidated statements of cash flows

(Unaudited)

| | Q1 2016 $m | Q1 2015 $m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 26.5 | 51.5 |
| Tax refunded | - | 2.7 |
| Depreciation | 0.6 | 0.5 |
| Interest expense on long-term debt | 4.4 | 3.7 |
| Interest and dividend income | (9.6) | (10.3) |
| Net amortisation of fixed maturity securities | 1.5 | 2.5 |
| Equity based compensation | 3.6 | 4.4 |
| Foreign exchange losses | 3.9 | 9.6 |
| Share of profit of associate | (1.3) | (0.7) |
| Net other investment losses (income) | 1.4 | (5.0) |
| Net realised losses (gains) and impairments | 7.9 | 0.2 |
| Net unrealised losses on interest rate swaps | 2.9 | 1.1 |
| Changes in operational assets and liabilities | | |
| -Insurance and reinsurance contracts | (58.9) | (45.4) |
| -Other assets and liabilities | 4.1 | (12.4) |
| **Net cash flows (used in)/from operating activities** | **(13.0)** | **2.4** |
| **Cash flows from investing activities** | | |
| Interest and dividends received | 9.3 | 10.6 |
| Net purchase of property, plant and equipment | - | (0.1) |
| Investment in associate | 25.6 | 26.7 |
| Purchase of investments | (304.3) | (241.8) |
| Proceeds on sale of investments | 312.3 | 387.4 |
| **Net cash flows from investing activities** | **42.9** | **182.8** |
| **Cash flows used in financing activities** | | |
| Interest paid | (5.7) | (5.6) |
| Dividends paid | (19.8) | - |
| Dividend paid to minority interest holders | (0.5) | - |
| Distributions by trust | (1.1) | (2.7) |
| **Net cash flows used in financing activities** | **(27.1)** | **(8.3)** |
| **Net increase in cash and cash equivalents** | 2.8 | 176.9 |
| Cash and cash equivalents at the beginning of year | 291.8 | 303.5 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 2.7 | (4.9) |
| **Cash and cash equivalents at end of year** | **297.3** | **475.5** |