LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 2.8% IN Q4 2016 AND 13.5% IN 2016
COMBINED RATIO OF 79.0% IN Q4 2016, 76.5% IN 2016
FINAL ORDINARY DIVIDEND OF $0.10 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $5.98 AS AT 31 DECEMBER 2016

16 February 2017
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the fourth quarter of 2016 and the year ended 31 December 2016.

Financial highlights

	31 December 2016	31 December 2015
Fully converted book value per share	**$5.98**	**$6.07**
Return on equity[1,2] – Q4	**2.8%**	**3.5%**
Return on equity[1,2]– YTD	**13.5%**	**13.5%**
Return on tangible equity[3] – Q4	**3.1%**	**4.0%**
Return on tangible equity[3] – YTD	**15.7%**	**11.8%**
Operating return on average equity – Q4	**3.4%**	**3.3%**
Operating return on average equity – YTD	**11.0%**	**12.0%**
Dividends per common share[4] – YTD	**$0.90**	**$1.10**

[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 3.5% for the fourth quarter of 2015 and 10.9% for 2015. All remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on the 2016 return on equity.
[3] Return on tangible equity excludes goodwill and other intangible assets but includes warrant exercises for the fourth quarter of 2015 and for 2015. Without warrant exercises the return on tangible equity would have been 4.0% and 15.4% respectively.
[4] See "Dividends" below for Record Date and Dividend Payment Date.

Financial highlights:

	Three months ended		Twelve months ended	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Highlights ($m)				
Gross premiums written	95.1	97.1	633.9	641.1
Net premiums written	88.1	87.3	458.7	481.7
Profit before tax	50.9	50.2	150.4	171.7
Profit after tax[1]	51.1	54.4	153.8	181.1
Comprehensive income[1]	34.6	45.0	157.9	169.8
Net operating profit[1]	45.9	45.8	144.0	173.4
Per share data				
Diluted earnings per share	$0.25	$0.27	$0.76	$0.91
Diluted earnings per share – operating	$0.23	$0.23	$0.71	$0.87
Financial ratios				
Total investment return including internal currency hedging	(0.1%)	(0.2%)	2.1%	0.7%
Total investment return excluding internal currency hedging	(0.3%)	(0.2%)	1.8%	0.2%
Net loss ratio	32.6%	18.3%	29.2%	27.5%
Combined ratio	79.0%	67.1%	76.5%	72.1%
Accident year loss ratio	49.6%	30.6%	46.2%	46.0%

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

Alex Maloney, Group Chief Executive Officer, commented:

"The 2016 year proved a turbulent one for the global political and macroeconomic environment and the insurance market remained very challenging. Risk capital remains abundant, and there is continuing pressure upon pricing and terms and conditions. Against this background I am particularly pleased with the results for both the fourth quarter and the full year. The RoE of 2.8% for the quarter and 13.5% for the year is an exceptional outcome in this environment and a tribute to the dedication and hard work of everyone across the business.

As I have stressed previously, we have maintained a tight focus on skillful and disciplined underwriting and overall risk management. Our principal focus has been to balance risk and return whilst serving the needs of our clients and their brokers. These results prove that, even in the current difficult times, we have relevance, our model works and is resilient. At 1 January, in line with our expectations and previous communication, we successfully renewed our core book across the Group, including at our Lloyd's platform.

At Lancashire we pride ourselves on fostering a culture which supports and develops the careers of truly talented people within the insurance sector, and we strive to afford our employees an opportunity to develop those talents creatively within a nimble and dynamic business culture. Over the last year the business has focussed on rebuilding and reinvigorating our Lloyd's platform and I am delighted to be able to welcome Jon Barnes, who joined us in late December 2016, as the designated Lloyd's active underwriter for Syndicate 2010, subject to regulatory approval. We have also recently announced the appointment of Andrew McKee who will be joining us in June 2017, as the new Chief Executive Officer for our Lloyd's managing agency.

Whilst we expect market conditions to remain difficult for the foreseeable future, which requires discipline and patience to navigate, our strategy has the ability to respond across the insurance cycle. We are well equipped to meet the needs of our clients and to generate acceptable returns for investors, whilst having the flexibility to capitalise quickly on new opportunities as they arise."

Elaine Whelan, Group Chief Financial Officer, commented:

"Proving the strength of our platforms in yet another challenging year, I am pleased to report an RoE of 2.8% for the quarter, bringing us to an RoE of 13.5% for the year. Relative contributions from Lancashire, Cathedral and Kinesis were 9.1%, 3.6% and 0.8%, respectively, consistent with last year's contributions. While our investment portfolio returned a small loss of 0.1% for the quarter, it performed in line with expectations in a rising yield environment, with our risk assets and interest rate hedges protecting the portfolio. Our compound annual return since inception, excluding the impact of warrants, is 18.6%.

Our outlook for 2017 is for a continuation of current market trends. At 1 January we have once again been able to further reduce our exposure levels with additional reinsurance purchases, and our risk levels are lower now than at any other point in our history. We are therefore carrying a bit more of a capital buffer than we typically would, which gives us the ability to take advantage of any opportunities that may materialise this year.

We are declaring our standard final ordinary dividend of 10 cents per share. Including our interim and special dividend for 2016, we have returned 113.3% of comprehensive income for the year and 104.2% since inception."

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:

RPI Lancashire (excluding Lloyd's segment)

Class	**YTD 2016**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Aviation (AV52)	90 %	91 %	88 %	90 %	90 %
Gulf of Mexico energy*	94 %	–	88 %	94 %	86 %
Energy offshore worldwide	87 %	92 %	84 %	86 %	87 %
Marine	88 %	88 %	91 %	82 %	92 %
Property retrocession and reinsurance	88 %	86 %	77 %	90 %	93 %
Terrorism	88 %	90 %	89 %	89 %	86 %
Lancashire (excluding Lloyd's segment)	**89%**	**90%**	**81%**	**90%**	**90%**

* There was no renewing Gulf of Mexico energy business written in the fourth quarter of 2016.

RPI (Lloyd's segment)

Class	**YTD 2016**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Aviation	96 %	97 %	99 %	98 %	97 %
Energy	89 %	87 %	90 %	90 %	86 %
Marine	95 %	90 %	95 %	98 %	97 %
Property retrocession and reinsurance	94 %	95 %	97 %	93 %	94 %
Terrorism	96 %	89 %	93 %	99 %	91 %
Lloyd's segment	**94%**	**93%**	**96%**	**93%**	**95%**

Underwriting results

Gross premiums written

	Q4				YTD			
	2016 $m	**2015 $m**	**Change $m**	**Change %**	**2016 $m**	**2015 $m**	**Change $m**	**Change %**
Property	29.1	27.8	1.3	4.7	219.5	197.2	22.3	11.3
Energy	23.6	15.0	8.6	57.3	126.0	112.0	14.0	12.5
Marine	4.8	9.2	(4.4)	(47.8)	37.2	47.6	(10.4)	(21.8)
Aviation	8.0	9.6	(1.6)	(16.7)	36.2	36.6	(0.4)	(1.1)
Lloyd's	29.6	35.5	(5.9)	(16.6)	215.0	247.7	(32.7)	(13.2)
Total	**95.1**	**97.1**	**(2.0)**	**(2.1)**	**633.9**	**641.1**	**(7.2)**	**(1.1)**

Gross premiums written decreased by 2.1% in the fourth quarter of 2016 compared to the same period in 2015. In 2016, gross premiums written decreased by 1.1% compared to 2015. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 4.7% for the fourth quarter of 2016 compared to the same period in 2015 and increased by 11.3% in 2016 compared to 2015. While the dollar movement for the quarter and within individual lines of business was small, we continued to see good new business flow in the political risk book, although this was more than offset by the impact of non-annual policies written in 2015 which are not yet due to renew. Business flow in the political risk class is generally less predictable than other classes of business due to the lead time and specific nature of each deal. For the year, the majority of the increase was driven by new business in the political risk and property catastrophe excess of loss classes, partly offset by reductions due to the impact of non-annual policies in the political risk and terrorism classes. Rates continued to experience pressure in the property catastrophe excess of loss class.

Energy gross premiums written increased by 57.3% for the fourth quarter of 2016 compared to the same period in 2015 and increased by 12.5% in 2016 compared to 2015. The fourth quarter is not typically a major renewal period for the energy segment. The worldwide offshore and energy construction books were responsible for the increase in the quarter, both benefiting from premium adjustments on prior year contracts, due to increased exposure. The Gulf of Mexico book was responsible for most of the increase in the year. Some new business was added in this class, but the vast majority of the increase is driven by the timing impact of multi-year deals plus the cancellation and replacement of certain contracts. For the year, the worldwide offshore book continued to experience price and exposure reductions due to the relatively low oil price, offset somewhat by the timing of renewal of non-annual deals.

Marine gross premiums written decreased by 47.8% for the fourth quarter of 2016 compared to the same period in 2015 and decreased by 21.8% in 2016 compared to 2015. The decrease in the quarter is mainly due to the timing of renewal of non-annual policies in the marine hull class. The majority of the decrease across the class in the year is also driven by the timing of non-annual renewals, together with a reduction in prior underwriting year risk-attaching business due to changes in the underlying exposure.

Aviation gross premiums written decreased by 16.7% for the fourth quarter of 2016 compared to the same period in 2015 and decreased by 1.1% in 2016 compared to 2015. The decreases are mainly due to the timing of satellite launches on contracts written in previous years.

In the Lloyd's segment gross premiums written decreased by 16.6% for the fourth quarter of 2016 compared to the same period in 2015 and decreased by 13.2% in 2016 compared to 2015. There were reductions across all lines of business, for both the quarter and year to date, with rates continuing to come under pressure due to over-capacity in the market. In addition, the energy and marine cargo lines were both impacted by the low oil price. The decline in Marine cargo premiums is due to the lower value of oil in transit. In the energy line, less oil production and exploration has reduced exposure.

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Ceded reinsurance premiums decreased by $2.8 million, or 28.6%, for the fourth quarter compared to the same period in 2015 and increased by $15.8 million, or 9.9%, in 2016 compared to 2015. Favourable conditions in the reinsurance market have generally allowed both Lancashire and Cathedral to buy more reinsurance limit, by adding new layers and attaching at lower loss levels for around the same outlay. The reduction in the quarter is mostly due to less facultative cover being purchased. The increased spend for 2016 is largely due to higher cessions to various outwards facilities and additional reinstatement premiums.

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Net premiums earned as a proportion of net premiums written was 145.5% in the fourth quarter of 2016 compared to 149.8% for the same period in 2015 and 106.4% in 2016 compared to 117.7% in 2015. The reduced earnings percentages are due to an increase in longer tenor business written plus increased reinsurance spend.

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The Group's net loss ratio for the fourth quarter of 2016 was 32.6% compared to 18.3% for the same period in 2015 and 29.2% for 2016 compared to 27.5% for 2015. The accident year loss ratio for the fourth quarter of 2016, including the impact of foreign exchange revaluations, was 49.6% compared to 30.6% for the same period in 2015 and 46.2% for 2016 compared to 46.0% for 2015. While there were no major losses in either 2016 or 2015, both years experienced a few mid-sized losses, primarily across the property and energy classes. The fourth quarter of 2016 picked up more volume of those relative to the fourth quarter of 2015. Attritional losses for both years were otherwise low.

Prior year favourable development for the fourth quarter of 2016 was $23.9 million, compared to favourable development of $16.6 million for the fourth quarter of 2015. Favourable development was $85.8 million for 2016 compared to favourable development of $107.7 million in 2015. Despite some adverse development on prior accident year marine and energy claims in 2016, the overall favourable development was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. Experience in 2015 was similar in terms of releases, plus there was a further benefit of additional recoveries on the 2011 Thai flood losses.

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

	Q4		**YTD**	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Property	6.0	(4.7)	36.6	26.4
Energy	(3.4)	8.5	17.3	35.2
Marine	0.6	3.1	1.9	13.8
Aviation	0.7	0.6	3.9	2.9
Lloyd's	20.0	9.1	26.1	29.4
Total	**23.9**	**16.6**	**85.8**	**107.7**

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:

	Year ended 31 December 2016	Year ended 31 December 2015
	$m	$m
2006 accident year	0.3	1.6
2007 accident year	(0.7)	1.1
2008 accident year	1.6	(2.1)
2009 accident year	(18.0)	4.1
2010 accident year	3.2	(3.5)
2011 accident year	9.9	17.1
2012 accident year	13.5	10.8
2013 accident year	(1.6)	35.4
2014 accident year	19.9	43.2
2015 accident year	57.7	–
Total	**85.8**	**107.7**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 34.6% at 31 December 2016 compared to 35.2% at 31 December 2015.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $6.8 million for the fourth quarter of 2016, a decrease of 8.1% from the fourth quarter of 2015. Net investment income was $29.8 million for 2016, consistent with 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 a loss of $3.2 million for the fourth quarter of 2016 compared to a loss of $3.0 million for the fourth quarter of 2015, and a gain of $38.4 million for 2016 compared to a gain of $14.4 million for 2015.

The investment portfolio generated a loss of 0.1% during the fourth quarter of 2016. The loss was driven by the significant increase in treasury yields, which caused negative returns in the standard fixed maturity portfolio. These losses were mitigated somewhat by strong returns from the Group's hedge funds, bank loans, and equity linked notes during the quarter. During the fourth quarter of 2015, the portfolio lost 0.2% as a result of the Federal Reserve's decision to raise interest rates during the quarter, and due to the widening of credit spreads amid global growth concerns and the decline in oil prices.

For 2016, the investment portfolio has returned 2.1%. The fixed maturity portfolios performed reasonably well in 2016, primarily due to the narrowing of credit spreads which more than offset the slight increase in treasury yields during the year. Investment income was supported by strong returns from the Group's bank loans, equities, and equity linked notes during 2016. For 2015 the investment portfolio returned 0.7% reflecting the increase in treasury yields and the widening of credit spreads.

The corporate bond allocation represented 32.5% of managed invested assets at 31 December 2016 compared to 33.2% at 31 December 2015.

The managed portfolio was as follows:

	As at 31 December 2016	As at 31 December 2015
Fixed maturity securities	81.4 %	81.6 %
Cash and cash equivalents	10.4 %	9.6 %
Hedge funds	7.0 %	8.0 %
Equity securities	1.2 %	0.8 %
Total	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 31 December 2016	As at 31 December 2015
Duration	1.8 years	1.5 years
Credit quality	A+	AA-
Book yield	1.8%	1.6%
Market yield	1.9%	1.9%

Lancashire Third Party Capital Management

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

	Q4		YTD	
	2016 $m	2015 $m	2016 $m	2015 $m
Kinesis underwriting fees	1.1	1.5	4.4	5.6
Kinesis profit commission	3.0	0.1	6.2	7.3
Lloyd’s fees & profit commission	6.2	3.4	9.9	7.0
Total other income	**10.3**	**5.0**	**20.5**	**19.9**
Share of profit of associate	0.7	(0.2)	5.1	4.1
Total third party capital managed income	**11.0**	**4.8**	**25.6**	**24.0**

The reduction in Kinesis underwriting fees year on year is due to slightly less limit placed. The timing of Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. The slightly lower profit commission for 2016 compared to 2015 is due to the retention of a portion of the collateral held on the January 2015 underwriting cycle which is awaiting the confirmation of claims quantum. We anticipate receiving the remaining commission in the first quarter of 2017. The share of profit of associate reflects Lancashire’s 10% equity interest in the Kinesis vehicle.

The higher Lloyd's fees and profit commission for the fourth quarter of 2016 compared to the same period in 2015, and for 2016 compared to 2015, are driven by the timing of profit commissions on the 2014 year of account, together with profit commissions on consortium business.

Other operating expenses

Other operating expenses consist of the following items:

	Q4		YTD	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Employee remuneration costs	14.6	20.0	61.4	64.3
Other operating expenses	8.8	10.7	37.1	42.3
Total	**23.4**	**30.7**	**98.5**	**106.6**

Employee remuneration costs for the fourth quarter of 2016 and the year were lower compared to the same periods in the prior year. A higher compensation expense due to Cathedral staff departures was recorded in the fourth quarter of 2015 and for that year. Otherwise the fourth quarter of 2016, and the year, benefited from the depreciation of Sterling in the second half of 2016.

Other operating expenses for the fourth quarter of 2016 and the year were also lower compared to 2015, primarily due to the depreciation in Sterling.

Equity based compensation

Equity based compensation was $0.6 million in the fourth quarter of 2016 compared to $3.6 million in the same period last year and $10.7 million for 2016 compared to $15.8 million in the prior year. The decrease in the quarter and the year compared to the prior year was primarily due to the lapsing of restricted share scheme awards of former employees of Cathedral on their departure from the Group.

Capital

At 31 December 2016, total capital available to Lancashire was $1.528 billion, comprising shareholders' equity of $1.207 billion and $320.9 million of long-term debt. Tangible capital was $1.374 billion. Leverage was 21.0% on total capital and 23.3% on total tangible capital. Total capital and total tangible capital at 31 December 2015 were $1.542 billion and $1.388 billion, respectively.

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.

Dividends

The Lancashire Board declared the following dividends during 2016:

- A final dividend relating to 2015 of $0.10 per common share;
- An interim dividend of $0.05 per common share; and
- A special dividend of $0.75 per common share.

Lancashire announces that its Board of Directors has declared a final dividend for 2016 of $0.10 per common share (approximately (£0.08) per common share at the current exchange rate), which will result in an aggregate payment of approximately $19.8 million. The dividend will be paid in Pounds Sterling on 22 March 2017 (the "Dividend Payment Date") to shareholders of record on 24 February 2017 (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 registrars, Capita Registrars for more details at: http://www.capitaassetservices.com

Financial information

The Audited Consolidated Financial Statements for the year ended 31 December 2016 and the 2016 fourth quarter Financial Supplement are published on Lancashire's website at www.lancashiregroup.com

The Annual Report and Accounts are expected to be posted to shareholders on 13 March 2017 and will also be made available on the website.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm GMT time / 8:00am EST on Thursday 16 February 2017. The conference call will be hosted by Lancashire management.

Participant Access:
Dial in 5-10 minutes prior to the start time using the number / Conference ID below.

Local - London, United Kingdom: +44(0)20 3427 1909
Local - New York, United States of America: +1646 254 3362
National free phone - United Kingdom: +0800 279 4977
National free phone - United States of America: +1877 280 2296
Confirmation Code: 5669665

The call can also be accessed via webcast, please go to our website at:
(http://www.lancashiregroup.com/en/investors.html) to access.

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

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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
S&P Global Ratings	A-	Positive	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 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

The UK Prudential Regulation Authority ("PRA") is the Group Supervisor of the Lancashire Group.

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority ("BMA") in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA in the UK.

Kinesis Capital Management Limited is regulated by the BMA in Bermuda.

Cathedral Underwriting Limited is authorised by the PRA and regulated by the FCA and the PRA in the UK. It is also authorised and regulated by Lloyd's.

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 GMT on 16 February 2017.

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 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 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; 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; ANYCHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF THE "BREXIT" VOTE AND FUTURE NEGOTIATIONS REGARDING THE U.K'S RELATIONSHIP WITH THE E.U. IN THE RECENT IN-OR-OUT REFERENDUM 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.

Consolidated statement of comprehensive income

	Q4 2016 $m	Q4 2015 $m	YTD 2016 $m	YTD 2015 $m
Gross premiums written	95.1	97.1	633.9	641.1
Outwards reinsurance premiums	(7.0)	(9.8)	(175.2)	(159.4)
Net premiums written	**88.1**	**87.3**	**458.7**	**481.7**
Change in unearned premiums	73.9	72.3	25.7	79.9
Change in unearned premiums on premiums ceded	(33.8)	(28.8)	3.7	5.5
Net premiums earned	**128.2**	**130.8**	**488.1**	**567.1**
Net investment income	6.8	7.4	29.8	29.8
Net other investment income (losses)	3.4	(0.2)	6.9	(1.3)
Net realised gains (losses) and impairments	3.1	(0.8)	(2.4)	(2.8)
Share of profit of associate	0.7	(0.2)	5.1	4.1
Other income	10.3	5.0	20.5	19.9
Net foreign exchange gains (losses)	0.9	2.6	4.4	(2.4)
Total net revenue	**153.4**	**144.6**	**552.4**	**614.4**
Insurance losses and loss adjustment expenses	33.4	24.1	212.2	177.5
Insurance losses and loss adjustment expenses recoverable	8.4	(0.1)	(69.7)	(21.8)
Net insurance acquisition expenses	36.0	33.1	132.1	146.2
Equity based compensation	0.6	3.6	10.7	15.8
Other operating expenses	23.4	30.7	98.5	106.6
Total expenses	**101.8**	**91.4**	**383.8**	**424.3**
Results of operating activities	**51.6**	**53.2**	**168.6**	**190.1**
Financing costs	0.7	3.0	18.2	18.4
Profit before tax	**50.9**	**50.2**	**150.4**	**171.7**
Tax credit	0.5	4.3	3.9	10.0
Profit after tax	**51.4**	**54.5**	**154.3**	**181.7**
Non-controlling interests	(0.3)	(0.1)	(0.5)	(0.6)
Profit after tax attributable to Lancashire	**51.1**	**54.4**	**153.8**	**181.1**
Net change in unrealised gains/losses on investments	(17.1)	(9.7)	4.1	(11.6)
Tax provision on net change in unrealised gains/ losses on investments	0.6	0.3	–	0.3
Other comprehensive (loss) income	**(16.5)**	**(9.4)**	**4.1**	**(11.3)**
Total comprehensive income attributable to Lancashire	**34.6**	**45.0**	**157.9**	**169.8**
Net loss ratio	32.6%	18.3%	29.2%	27.5%
Net acquisition cost ratio	28.1%	25.3%	27.1%	25.8%
Administrative expense ratio	18.3%	23.5%	20.2%	18.8%
Combined ratio	79.0%	67.1%	76.5%	72.1%
Basic earnings per share	$ 0.26	$ 0.27	$ 0.77	$ 0.93
Diluted earnings per share	$ 0.25	$ 0.27	$ 0.76	$ 0.91
Change in fully converted book value per share	2.8%	3.5%	13.5%	13.5%

* Return on equity including warrant exercises was 3.5% for the fourth quarter of 2015 and 10.9% for 2015, all remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity.

Consolidated balance sheet

	As at 31 December 2016 $m	As at 31 December 2015 $m
Assets		
Cash and cash equivalents	308.8	291.8
Accrued interest receivable	6.6	6.5
Investments	1,648.4	1,773.3
Inwards premiums receivable from insureds and cedants	270.0	253.7
Reinsurance assets		
- Unearned premiums on premiums ceded	33.9	30.2
- Reinsurance recoveries	136.7	83.9
- Other receivables	16.5	2.7
Other receivables	43.6	37.8
Corporation tax receivable	1.1	–
Investment in associate	49.7	47.5
Property, plant and equipment	5.3	7.2
Deferred acquisition costs	81.5	87.2
Intangible assets	153.8	153.8
Total assets	**2,755.9**	**2,775.6**
Liabilities		
Insurance contracts		
- Losses and loss adjustment expenses	679.8	671.0
- Unearned premiums	373.5	399.2
- Other payables	37.4	36.2
Amounts payable to reinsurers	52.7	26.6
Deferred acquisition costs ceded	0.4	0.3
Other payables	61.0	67.0
Corporation tax payable	–	1.8
Deferred tax liability	18.7	25.6
Interest rate swap	3.7	4.8
Long-term debt	320.9	322.3
Total liabilities	**1,548.1**	**1,554.8**
Shareholders' equity		
Share capital	100.7	100.7
Own shares	(23.2)	(30.4)
Other reserves	881.6	880.8
Accumulated other comprehensive loss	(6.4)	(10.5)
Retained earnings	254.6	279.7
Total shareholders' equity attributable to equity shareholders of LHL	**1,207.3**	**1,220.3**
Non-controlling interest	0.5	0.5
Total shareholders' equity	**1,207.8**	**1,220.8**
Total liabilities and shareholders' equity	**2,755.9**	**2,775.6**
Basic book value per share	$6.07	$6.16
Fully converted book value per share	$5.98	$6.07

Consolidated statements of cash flows

	YTD 2016 $m	YTD 2015 $m
Cash flows from operating activities		
Profit before tax	150.4	171.7
Tax (paid) refunded	(1.3)	4.4
Depreciation	2.3	1.9
Interest expense on long-term debt	15.6	15.1
Interest and dividend income	(38.5)	(40.9)
Net amortisation of fixed maturity securities	5.0	8.1
Equity based compensation	10.7	15.8
Foreign exchange (gains) losses	(2.3)	10.8
Share of profit of associate	(5.1)	(4.1)
Net other investment (income) losses	(6.9)	1.3
Net realised losses (gains) and impairments	2.4	2.8
Net unrealised gains on interest rate swaps	(1.1)	(0.1)
Changes in operational assets and liabilities		
- Insurance and reinsurance contracts	(71.7)	(71.0)
- Other assets and liabilities	(10.6)	(17.7)
Net cash flows from operating activities	**48.9**	**98.1**
Cash flows from investing activities		
Interest and dividends received	38.4	42.1
Purchase of property, plant and equipment	(0.4)	–
Investment in associate	2.9	9.3
Purchase of investments	(1,214.0)	(990.8)
Proceeds on sale of investments	1,341.8	1,173.5
Net cash flows from investing activities	**168.7**	**234.1**
Cash flows used in financing activities		
Interest paid	(15.4)	(15.2)
Dividends paid	(178.9)	(317.5)
Dividend paid to minority interest holders	(0.5)	(0.6)
Distributions by trust	(2.9)	(4.7)
Net cash flows used in financing activities	**(197.7)**	**(338.0)**
Net increase (decrease) in cash and cash equivalents	**19.9**	**(5.8)**
Cash and cash equivalents at the beginning of year	291.8	303.5
Effect of exchange rate fluctuations on cash and cash equivalents	(2.9)	(5.9)
Cash and cash equivalents at end of year	**308.8**	**291.8**