lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2013

Contents

Financial highlights

	30 Jun 2013	30 Jun 2012	31 Dec 2012
Fully converted book value per share	$7.19	$8.06	$7.62
Return on equity - ytd	7.0%	7.1%	16.7%
Operating return on average equity - ytd	8.5%	7.5%	15.3%

	Six months ended 30 Jun 2013	Six months ended 30 Jun 2012	Twelve months ended 31 Dec 2012
Highlights ($m)			
Gross premiums written	423.9	514.8	724.3
Net premiums written	307.7	365.6	576.1
Profit before tax	137.2	107.1	236.8
Profit after tax	134.1	103.7	234.9
Comprehensive income	97.5	115.2	252.7
Net operating profit	121.5	102.6	220.3
Per share data			
Fully diluted earnings per share	$0.74	$0.57	$1.29
Fully diluted earnings per share - operating	$0.67	$0.57	$1.21
Financial ratios			
Total investment return	(0.5%)	1.7%	3.1%
Net loss ratio	23.5%	31.7%	29.9%
Combined ratio	58.8%	67.2%	63.9%
Accident year loss ratio	26.2%	46.5%	34.6%

Dividends

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	16 Mar 2012	18 Apr 2012	19.2
Interim	$0.05	31 Aug 2012	26 Sep 2012	9.6
Special	$0.90	30 Nov 2012	19 Dec 2012	172.6
Final	$0.10	22 Mar 2013	17 Apr 2013	19.2
Special	$1.05	22 Mar 2013	17 Apr 2013	201.4
Interim	$0.05	23 Aug 2013	25 Sep 2013	9.6

Richard Brindle, Group Chief Executive Officer, commented:

Whilst a lot of the discussion this year about the insurance business has been focused on the influx of new capital into the property reinsurance market, it is important to remember that the bulk of Lancashire's business is in the direct specialty lines where barriers to entry are much higher. The absence of widely-accepted third party models for non-elemental risk exposures and especially the complexity of coverage and claims in lines like energy, terrorism and marine which form the lion's share of Lancashire's business, mean that this is not an area that capital can enter without experienced and well-regarded underwriters. Our specialty lines in terror and political risk, energy, aviation and marine account for around two-thirds of our portfolio in 2013. These are niche markets where the experience and reputation of our underwriters and claims staff, the relationships we have built with clients and brokers over decades in the business and the ability to offer market-leading capacity with an efficient decision-making process make Lancashire a preferred partner. We do foresee tough times for those smaller market participants who cannot offer the line size, track record or experience, but at Lancashire we have a consistent history of superior results that will help us through a softening market cycle. Our loss ratios and combined ratios are the key to our performance and a net loss ratio of 23.5 per cent for the first half of this year and a combined ratio of 58.8 per cent are reminders that even in softer markets Lancashire's underwriting rigour can produce excellent results.

On the property side we have continued to expand our property catastrophe portfolio to replace the exposures which we are dropping from the run-off of the property direct and facultative book and from the reduction in our property retrocession writings. The run-off of the property direct and facultative inwards class is now almost complete and we have reduced property retrocession as planned; as you know we always talk about property retrocession as a post-loss product, and the losses of 2010 and 2011 have faded in the memory and competition from the non-traditional markets has had a definite impact on pricing. The upside of this is that in property catastrophe we have a number of areas where we can grow our core portfolio and this year we have written new business in the US Northeast Region, Florida, California and Texas, as well as Japan, Thailand, the United Kingdom, Continental Europe, and Australia. Whilst pricing is undoubtedly under pressure, there is still well-priced business available, and with our exposure sitting at very modest levels we will take the opportunities to build out our core business where we can.

We were naturally disappointed at the deterioration in the Costa Concordia loss and will continue to monitor the situation closely. Our attritional loss ratios are so low that we can provide meaningful capacity to clients, accepting that we will have major losses from time to time, but still producing market-beating combined ratios.

Our research and development phase on Kinesis, the Lancashire Capital Management arm, is going well and we are having encouraging discussions with both investors and clients. We won't have much to report until this phase has concluded but we believe our combination of non-elemental lines expertise and data and elemental optimisation skills will give Kinesis an edge in a competitive market.

So all in all Lancashire continues to produce excellent underwriting results and we thank all our clients and brokers for their support. We often say that a soft market is a better test of underwriting approach and ability than a hard market, and we're well placed to negotiate the current market conditions.

Elaine Whelan, Group Chief Financial Officer, commented:

Despite some challenges in the first half of 2013, we've produced a return on equity of 7.0 per cent. The Costa Concordia loss deteriorated significantly in the six months ending 30 June 2013. And with volatility returning to the investment markets, we recorded a loss on our portfolio of 0.5 per cent for the first six months of 2013. The loss on our investments was stemmed by the interest rate hedging that we implemented earlier in the year, so our timing there was opportune.

With no improvement in our trading outlook, we have substantial excess capital. This obviously affords us maximum flexibility to take advantage of any opportunities that may arise but, in the absence of those, we would expect to return our earnings to our shareholders later in the year.

Lancashire Renewal Price Index for major classes

Lancashire's RPI is an internal tool 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 Lancashire's assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume. The RPI does not include new business or contracts with fundamental changes to terms and conditions or exposures. The calculation involves a degree of judgement in relation to comparability of contracts and the assessment noted above. To enhance the RPI tool, management 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.

The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2012:

Class	30 Jun 2013 %
Aviation (AV52)	90
Gulf of Mexico energy	97
Energy offshore worldwide	98
Marine	105
Property reinsurance	98
Terrorism	96
Combined	**98**

Underwriting results

Gross premiums written	Six months ended 30 Jun 2013 $m	Six months ended 30 Jun 2012 $m	Change $m	Change %
Property	218.8	276.5	(57.7)	(20.9)
Energy	143.1	167.8	(24.7)	(14.7)
Marine	42.3	53.9	(11.6)	(21.5)
Aviation	19.7	16.6	3.1	18.7
Total	**423.9**	**514.8**	**(90.9)**	**(17.7)**

Gross premiums written decreased by 17.7 per cent in the first six months of 2013 compared to the same period in 2012. The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 20.9 per cent in the first six months of 2013 compared to the first six months of 2012. The decrease is driven primarily by the property retrocession book, where we reduced exposures due to worsening rates and terms and conditions, and our decision to cease writing property direct and facultative business from 1 July 2012. In addition, some opportunistic deals written in 2012 in both the property retrocession and property catastrophe excess-of-loss classes were not renewed. The property catastrophe excess-of-loss 1 April 2013 renewals were also adversely impacted by foreign exchange movements on the Japanese Yen. In 2013 we saw increased deal flow in the political and sovereign risk classes and were able to write some new business with core clients in this class, offsetting the non-renewal of long term deals written in these classes in the previous year.

Energy gross premiums written decreased by 14.7 per cent in the first six months of 2013 compared to the first six months of 2012. The decrease in premiums is mostly driven by the Gulf of Mexico book where a number of deals that were written on a multi-year basis in the second quarter of 2012 are not up for renewal yet. The relative reduction is less than it otherwise would be due to the early cancellation and renewal of one significant multi-year deal in the first half of 2013. Given the renewal terms, the impact on earnings is negligible. During the first half of 2013 we have entered a new sub-class – energy liabilities – with $5.0 million of premium written to date. Volumes on our other energy lines are fairly flat on both a quarter to date and year to date basis.

Marine gross premiums written decreased by 21.5 per cent in the first six months of 2013 compared to the first six months of 2012. The timing of non-annual contract renewals is the main reason for the reduction in premium on a year to date basis across the majority of marine classes. Increases in the P&I clubs were due to post loss pricing on renewals impacted by the Costa Concordia loss.

Aviation gross premiums written increased by 18.7 per cent in the first six months of 2013 compared to the first six months of 2012. Pricing and renewal rates remain under pressure in the AV52 class resulting in a reduction in premiums in 2013 compared to the same period of 2012. These reductions are offset in 2013 by new satellite premium written following our re-entry into the class in the third quarter of 2012.

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Ceded reinsurance premiums decreased by $33.0 million, or 22.1 per cent, for the six-month period to 30 June 2013 compared to the same period in 2012. The decrease in the year is predominantly due to reduced cessions to the Accordion vehicle. The first six months of 2013 included a combination of rate and cover increases on our outwards marine and energy programmes and we also continued to take advantage of available ILWs in early 2013. This was more than offset by the non-renewal of the property per risk programme and the property catastrophe programme, given our exit from the direct and facultative line of business. The first six months of 2012 included reinstatement premiums in relation to the Costa Concordia marine loss.

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Net premiums earned as a proportion of net premiums written were 84.7 per cent in the six months to 30 June 2013, compared to 79.8 per cent in the same period in 2012. The increased percentage for 2013 reflects the reduction in gross premiums written compared to the same period in the prior year. Both years benefited from the lag in earnings from long-term contracts written in preceding years.

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The Group’s net loss ratio was 23.5 per cent for the six month period to 30 June 2013 compared to 31.7 per cent for the same period in 2012. While there was adverse development on the Costa Concordia marine loss of $37.7 million in the first six months of 2013, after reinsurance and reinstatement premium, as a result of updated information received, there were otherwise no significant losses in the first six months of 2013. Attritional losses reported were also exceptionally low. In the first six months of 2012 the Group incurred total estimated net losses for Costa Concordia of $58.7 million. Our total estimated net loss, after reinsurance and reinstatement premiums, for Costa Concordia is now $96.9 million.

Prior year favourable development was $7.3 million for the 2013 year to date compared to $43.5 million for the same period in 2012 with 2013 development impacted significantly by the Costa Concordia development. Both years experienced releases due to lower than expected reported losses.

The following tables show the impact of prior year development and large losses on the Group's loss ratio:

For the six months ended 30 June 2013	Losses $m	Loss ratio %
At 30 June 2013	61.3	23.5
Absent Costa Concordia	28.0	10.6
Absent remaining prior year development	101.9	38.5
Adjusted loss ratio	**68.6**	**25.9**

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

For the six months ended 30 June 2012	Losses $m	Loss ratio %
At 30 June 2012	92.4	31.7
Absent Costa Concordia	46.7	15.3
Absent prior year development	135.9	46.6
Adjusted loss ratio	**90.2**	**29.6**

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

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

	Six months ended 30 Jun 2013 $m	Six months ended 30 Jun 2012 $m
Property	12.8	(8.5)
Energy	21.5	28.6
Marine	(25.6)	23.3
Aviation	(1.4)	0.1
Total	**7.3**	**43.5**

Note: Positive numbers denote favourable development.

The year to date accident year loss ratio, including the impact of foreign exchange revaluations, was 26.2 per cent compared to 46.5 per cent for the six months to 30 June 2012. The 2013 accident year loss ratio for six months ended 30 June 2013 does not include any significant large losses. The 2012 accident year loss ratio for the six months to 30 June 2012 included 17.0 per cent for the Costa Concordia marine loss.

Otherwise, both years experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the first half of 2013 and 2012:

	Six months ended 30 Jun 2013 $m	Six months ended 30 Jun 2012 $m
2006 accident year	(1.4)	0.2
2007 accident year	(0.8)	1.8
2008 accident year	(1.5)	(0.5)
2009 accident year	1.4	5.7
2010 accident year	0.1	11.5
2011 accident year	7.1	24.8
2012 accident year	2.4	-
Total	**7.3**	**43.5**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 33.7 per cent compared to 29.6 per cent at 30 June 2012.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $12.6 million for the first half of 2013, a decrease of 26.3 per cent from the same period in 2012. Average book yields over the first six months of 2013 were lower than the first six months of 2012. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses was a loss of $8.1 million for the 2013 year to date compared to $34.0 million of income for the same period in 2012. Treasury yields and credit spreads increased in the first half of 2013 which had a significant impact on our portfolio, particularly on our EMD portfolio. In the corresponding period of 2012 our portfolio benefited from significant credit spread tightening, again particularly in the EMD portfolio.

Currently 4.0 per cent of the portfolio is allocated to EMD with an overall average credit quality of BBB. The corporate bond allocation represented 28.4 per cent of managed invested assets at 30 June 2013 compared to 28.5 per cent at 30 June 2012. At 30 June 2013 the Group's allocation to bank loans represented 3.7 per cent of the portfolio. These floating rate notes are part of our interest rate risk management strategy.

The group also implemented a tail-risk hedging strategy in the first six months of 2013, consisting of payer swaptions, to protect the fixed income portfolio from of a significant increase in interest rates. These instruments lessened the impact on our fixed income portfolio from the rise in treasury yields that occurred in 2013, and contributed 0.3 per cent to portfolio performance during the first six months of 2013.

The managed portfolio was invested as follows:

	30 Jun 2013 %	30 Jun 2012 %	31 Dec 2012 %
Fixed income securities	80.9	86.3	88.9
Other investments	0.4	-	-
Cash and cash equivalents	18.7	13.7	11.1
Total	**100.0**	**100.0**	**100.0**

Key investment portfolio statistics are:

	30 Jun 2013	30 Jun 2012	31 Dec 2012
Duration	1.3 years	1.7 years	1.8 years
Credit quality	AA-	AA-	AA-
Book yield	1.5%	1.8%	1.8%
Market yield	1.4%	1.2%	1.1%

Lancashire Capital Management

The share of profit of associates of $6.2 million for the first half of 2013 reflects Lancashire's 20 per cent equity interest in the Accordion vehicle and 16.9 per cent interest in the Saltire vehicle. Share of profit of associates was $1.5 million for the first half of 2012 and related entirely to the Accordion vehicle.

Other operating expenses

Operating expenses consist of the following items:

	Six months ended 30 Jun 2013 $m	Six months ended 30 Jun 2012 $m
Employee remuneration	18.8	27.5
Other operating expenses	15.5	14.0
Total	**34.3**	**41.5**

In the first half of 2012 employment remuneration included a one-off national insurance charge of $6.9 million, incurred as a result of the Group's tax residency move to the UK effective from 1 January 2012.

Equity based compensation for the six months to 30 June 2013 and 2012 was $7.2 million and $5.9 million respectively.

Capital

At 30 June 2013, total capital was $1.525 billion, comprising shareholders' equity of $1.266 billion and $258.3 million of long-term debt. Leverage was 16.9 per cent. Total capital was $1.549 billion at 30 June 2012 and $1.646 billion at 31 December 2012.

Dividends

During the first quarter of 2013, the Lancashire Board of Directors declared a final dividend in respect of 2012 of $0.10 (£0.07) per common share and an additional special dividend for 2012 of $1.05 (£0.69 pence) per common share. The dividends, totalling $220.6 million, were paid on 17 April 2013 to shareholders of record on 22 March 2013.

Lancashire announces that its Board has declared an interim dividend for 2013 of $0.05 per common share (approximately £0.07 per common share at the current exchange rate), which will result in an aggregate payment of approximately $8.1 million. The dividend will be paid in Pounds Sterling on 25 September 2013 (the "Dividend Payment Date") to shareholders of record on 23 August 2013 (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.capitaregistrars.com/shareholder.aspx

In addition to the interim dividend payment to shareholders, a dividend equivalent payment of approximately $1.5 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

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.

Ratings

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

	Financial Strength Rating [1]	Long Term Issuer Rating [2]	Outlook
A.M. Best	A	bbb	Stable
S&P	A-	BBB	Stable
Moody's	A3	Baa2	Stable

[1] Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.
[2] Long Term Issuer Rating applies to Lancashire Holdings Limited.

Condensed interim consolidated statement of comprehensive income

For the six months ended 30 June 2013

	Notes	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Gross premiums written	2	423.9	514.8	724.3
Outwards reinsurance premiums	2	(116.2)	(149.2)	(148.2)
Net premiums written		**307.7**	**365.6**	**576.1**
Change in unearned premiums	2	(96.8)	(143.8)	3.8
Change in unearned premiums on premiums ceded	2	49.6	69.9	2.7
Net premiums earned		**260.5**	**291.7**	**582.6**
Net investment income	3	12.6	17.1	32.5
Net other investment income	3	3.8	0.5	0.7
Net realised gains (losses) and impairments	3	12.1	4.9	11.8
Share of profit of associates	10	6.2	1.5	7.7
Other income	14	0.6	-	-
Net foreign exchange gains (losses)		3.6	(0.4)	4.3
Total net revenue		**299.4**	**315.3**	**639.6**
Insurance losses and loss adjustment expenses	2, 8	105.7	164.8	216.9
Insurance losses and loss adjustment expenses recoverable	2, 8	(44.4)	(72.4)	(42.8)
Net insurance losses		**61.3**	**92.4**	**174.1**
Insurance acquisition expenses	2	62.5	67.2	130.2
Insurance acquisition expenses ceded	2	(4.8)	(5.2)	(10.8)
Other operating expenses	4	34.3	41.5	78.4
Equity based compensation	4	7.2	5.9	16.4
Total expenses		**160.5**	**201.8**	**388.3**
Results of operating activities		**138.9**	**113.5**	**251.3**
Financing costs	5	1.7	6.4	14.5
Profit before tax		**137.2**	**107.1**	**236.8**
Tax charge	6	3.1	3.4	1.9
Profit for the period attributable to equity shareholders		**134.1**	**103.7**	**234.9**
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 7	(37.4)	11.7	18.1
Tax recovery (expense) on net change in unrealised gains / losses on investments	6, 7	0.8	(0.2)	(0.3)
Other comprehensive (loss) income		**(36.6)**	**11.5**	**17.8**
Total comprehensive income attributable to equity shareholders		**97.5**	**115.2**	**252.7**
Earnings per share				
Basic	13	$0.84	$0.65	$1.47
Diluted	13	$0.74	$0.57	$1.29

Condensed interim consolidated balance sheet
As at 30 June 2013

	Notes	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
Assets				
Cash and cash equivalents	11	413.6	328.1	295.8
Accrued interest receivable		7.5	9.0	9.3
Investments				
- Fixed income securities, available for sale	7, 11	1,614.9	1,767.0	1,874.5
- Other investments	7	8.1	(0.3)	0.1
Reinsurance assets				
- Unearned premiums on premiums ceded		61.1	78.7	11.5
- Reinsurance recoveries	8	87.2	108.7	73.0
- Other receivables		0.8	0.6	4.5
Deferred acquisition costs		81.2	83.0	68.0
Other receivables		4.2	16.4	2.7
Inwards premiums receivable from insureds and cedants		276.6	335.3	207.0
Deferred tax asset	9	5.7	5.8	7.3
Corporation tax receivable		-	-	0.4
Investment in associates	10	53.6	43.5	82.1
Property, plant and equipment		2.1	4.1	2.8
Intangible asset		-	2.9	-
Total assets		**2,616.6**	**2,782.8**	**2,639.0**
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	8	513.8	576.6	537.4
- Unearned premiums		440.1	490.9	343.3
- Other payables		24.8	23.6	23.5
Amounts payable to reinsurers		43.7	69.9	30.6
Deferred acquisition costs ceded		3.9	5.5	0.8
Other payables		64.0	59.9	49.3
Corporation tax payable		-	0.2	-
Interest rate swap		1.7	7.5	8.0
Long-term debt		258.3	126.9	258.7
Total liabilities		**1,350.3**	**1,361.0**	**1,251.6**
Shareholders' equity				
Share capital	12	84.3	84.3	84.3
Own shares	12	(47.3)	(68.2)	(57.1)
Share premium		2.4	2.4	2.4
Contributed surplus		652.6	659.7	654.4
Accumulated other comprehensive income	7	(1.2)	29.1	35.4
Other reserves		51.1	52.6	57.1
Retained earnings		524.4	661.9	610.9
Total shareholders' equity attributable to equity shareholders		**1,266.3**	**1,421.8**	**1,387.4**
Total liabilities and shareholders' equity		**2,616.6**	**2,782.8**	**2,639.0**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 24 July 2013 and signed on its behalf by:

MARTIN THOMAS
DIRECTOR/CHAIRMAN

ELAINE WHELAN
DIRECTOR/CHIEF FINANCIAL OFFICER

Condensed interim consolidated statement of changes in shareholders' equity
For the six months ended 30 June 2013

	Notes	Share capital $m	Own shares $m	Share premium $m	Contributed surplus $m	Accumulated other compre-hensive income $m	Other reserves $m	Retained earnings $m	Total $m
Balance as at 31 December 2011		**84.3**	**(83.0)**	**2.4**	**660.5**	**17.6**	**67.6**	**577.4**	**1,326.8**
Total comprehensive income for the period	7	-	-	-	-	11.5	-	103.7	115.2
Distributed by trust	12	-	28.5	-	(36.4)	-	-	-	(7.9)
Shares donated to trust	12	-	(18.4)	-	18.4	-	-	-	-
Dividends on common shares	12	-	-	-	-	-	-	(15.9)	(15.9)
Dividend equivalents on warrants	12	-	-	-	-	-	-	(3.3)	(3.3)
Warrant exercises - founder	12	-	4.7	-	(1.4)	-	(3.3)	-	-
Equity based compensation - tax	6, 9	-	-	-	-	-	1.0	-	1.0
Equity based compensation - exercises		-	-	-	18.6	-	(18.6)	-	-
Equity based compensation - expense	4	-	-	-	-	-	5.9	-	5.9
Balance as at 30 June 2012		**84.3**	**(68.2)**	**2.4**	**659.7**	**29.1**	**52.6**	**661.9**	**1,421.8**
Total comprehensive income for the period	7	-	-	-	-	6.3	-	131.2	137.5
Distributed by trust	12	-	4.7	-	(5.5)	-	-	-	(0.8)
Shares donated to trust	12	-	-	-	-	-	-	-	-
Dividends on common shares	12	-	-	-	-	-	-	(152.7)	(152.7)
Dividend equivalents on warrants	12	-	-	-	-	-	-	(29.5)	(29.5)
Warrant exercises - founder	12	-	6.4	-	(2.0)	-	(4.4)	-	-
Equity based compensation - tax	6, 9	-	-	-	-	-	0.6	-	0.6
Equity based compensation - exercises		-	-	-	2.2	-	(2.2)	-	-
Equity based compensation - expense	4	-	-	-	-	-	10.5	-	10.5
Balance as at 31 December 2012		**84.3**	**(57.1)**	**2.4**	**654.4**	**35.4**	**57.1**	**610.9**	**1,387.4**
Total comprehensive income for the period	7	-	-	-	-	(36.6)	-	134.1	97.5
Distributed by trust	12	-	21.9	-	(27.7)	-	-	-	(5.8)
Shares donated to trust	12	-	(12.8)	-	12.8	-	-	-	-
Dividends on common shares	12	-	-	-	-	-	-	(186.3)	(186.3)
Dividend equivalents on warrants	12	-	-	-	-	-	-	(34.3)	(34.3)
Warrant exercises - founder	12	-	0.7	-	(0.2)	-	(0.5)	-	-
Equity based compensation - tax	6, 9	-	-	-	-	-	0.6	-	0.6
Equity based compensation - exercises		-	-	-	13.3	-	(13.3)	-	-
Equity based compensation - expense	4	-	-	-	-	-	7.2	-	7.2
Balance as at 30 June 2013		**84.3**	**(47.3)**	**2.4**	**652.6**	**(1.2)**	**51.1**	**524.4**	**1,266.3**

Condensed interim statement of consolidated cash flows

For the six months ended 30 June 2013

	Notes	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Cash flows from operating activities				
Profit before tax		137.2	107.1	236.8
Tax paid		0.4	(1.2)	(1.2)
Depreciation		0.7	1.4	2.8
Interest expense on long-term debt	5	6.2	2.8	7.2
Interest and dividend income		(22.5)	(24.7)	(48.4)
Net amortisation of fixed income securities		6.7	5.6	11.8
Equity based compensation	4	7.2	5.9	16.4
Foreign exchange (gains) losses		(1.8)	(1.9)	(7.1)
Share of profit of associates	10	(6.2)	(1.5)	(7.7)
Net other investment (income) losses	3	(3.8)	(0.5)	(0.7)
Net realised (gains) losses and impairments	3	(12.1)	(4.9)	(11.8)
Net unrealised (gains) losses on interest rate swaps		(6.3)	1.4	1.9
Loss on disposal of intangible asset		-	-	2.9
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		(40.3)	(36.1)	(17.7)
- Other assets and liabilities		12.1	6.8	8.1
Net cash flows from operating activities		**77.5**	**60.2**	**193.3**
Cash flows from (used in) investing activities				
Interest, dividends and other income received		25.6	25.7	49.1
Net purchase of property, plant and equipment		-	(0.2)	(0.2)
Purchase and development of intangible asset		-	(1.7)	(1.7)
Investment in associates	14	34.7	8.9	(23.6)
Purchase of fixed income securities		(612.2)	(852.3)	(1,681.8)
Proceeds on maturity and disposal of fixed income securities		833.1	811.1	1,541.4
Net settlement of other investments		2.2	(1.2)	(3.2)
Net cash flows from (used in) investing activities		**283.4**	**(9.7)**	**(120.0)**
Cash flows used in financing activities				
Interest paid		(6.1)	(2.9)	(5.5)
Issuance of long-term debt		-	-	130.0
Dividends paid	12	(220.6)	(19.2)	(201.4)
Distributions by trust		(5.9)	(7.9)	(8.7)
Net cash flows used in financing activities		**(232.6)**	**(30.0)**	**(85.6)**
Net increase (decrease) in cash and cash equivalents		**128.3**	**20.5**	**(12.3)**
Cash and cash equivalents at beginning of period		295.8	311.8	311.8
Effect of exchange rate fluctuations on cash and cash equivalents		(10.5)	(4.2)	(3.7)
Cash and cash equivalents at end of period		**413.6**	**328.1**	**295.8**

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of the Group's unaudited condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2013. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective 1 January 2013.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 introduces a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment had no impact on the Group's financial position or performance and did not materially affect the presentation of other comprehensive income.

IFRS 13 Fair Value Measurement establishes a single source of guidance under IFRS for all fair value measurements. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group but requires specific disclosures in respect of fair values to be made in the interim financial statements. The Group provides these disclosures in Note 7 which are consistent with those in the Group's consolidated annual financial statements for the year ended 31 December 2012.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

Basis of preparation

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

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

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

Seasonality of interim operations

The Group underwrites worldwide short-tail insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premium sufficient to meet likely losses and expenses.

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

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

	2012		2011	
	$m	**%**	**$m**	**%**
January to June	514.8	71.1	379.8	60.1
July to December	209.5	28.9	252.5	39.9
Total	**724.3**	**100.0**	**632.3**	**100.0**

The Group's exposure to certain events, as a percentage of capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance.

		30 Jun 2013		30 Jun 2012		31 Dec 2012	
Zones	**Perils**	**$m**	**% of capital**	**$m**	**% of capital**	**$m**	**% of capital**
		100 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	235.8	15.5	323.6	20.9	324.4	19.7
Pan-European	Windstorm	142.1	9.3	199.8	12.9	191.9	11.7
Japan	Earthquake	126.8	8.3	160.0	10.3	158.4	9.6
Japan	Typhoon	101.9	6.7	159.8	10.3	164.2	10.0
California	Earthquake	69.2	4.5	112.2	7.2	106.7	6.5
Pacific North West	Earthquake	25.3	1.7	33.7	2.2	34.9	2.1

(1) Landing hurricane from Florida to Texas.

		30 Jun 2013		30 Jun 2012		31 Dec 2012	
Zones	**Perils**	**$m**	**% of Capital**	**$m**	**% of capital**	**$m**	**% of capital**
		250 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	354.2	23.2	458.5	29.6	462.5	28.1
Pan-European	Windstorm	198.0	13.0	271.1	17.5	257.8	15.7
Japan	Earthquake	238.0	15.6	289.7	18.7	288.2	17.5
Japan	Typhoon	238.1	15.6	357.5	23.1	369.9	22.5
California	Earthquake	177.3	11.6	263.5	17.0	263.9	16.0
Pacific North West	Earthquake	109.0	7.1	191.4	12.4	191.1	11.6

(1) Landing hurricane from Florida to Texas.

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

Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 80 to 103 in the Group's Annual Report and Accounts for the year ended 31 December 2012. The risks that were discussed on those pages were:

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

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

1. General information

The Group is a provider of global specialty insurance and reinsurance products. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009 LHL was added to the official list and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007 LHL's shares have had a secondary listing on the BSX. LHL's head office is at Level 11, Vitro, 60 Fenchurch Street, London, EC3M 4AD, UK.

2. Segmental reporting

Management and the Board of Directors review the Group's business primarily by its four principal classes: property, energy, marine and aviation. These classes are therefore deemed to be the Group's operating segments for the purposes of segment reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 83 to 85 of the Group's Annual Report and Accounts for the year ended 31 December 2012. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

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

Revenue and expense by operating segment - for the six months ended 30 June 2013

Gross premiums written	$m	$m	$m	$m	$m
	Property	Energy	Marine	Aviation	Total
(Analysed by geographical region)					
Worldwide offshore	-	129.5	40.9	-	170.4
Worldwide, including the U.S. and Canada [(1)]	68.5	4.2	0.8	19.6	93.1
U.S. and Canada	53.9	6.2	-	-	60.1
Far East	33.1	0.2	-	-	33.3
Europe	21.0	-	-	-	21.0
Worldwide, excluding the U.S. and Canada [(2)]	11.5	0.4	-	-	11.9
Middle East	8.6	(0.1)	-	-	8.5
Rest of world	22.2	2.7	0.6	0.1	25.6
Total	**218.8**	**143.1**	**42.3**	**19.7**	**423.9**
Outwards reinsurance premiums	(64.7)	(37.1)	(10.6)	(3.8)	(116.2)
Change in unearned premiums	(70.5)	(25.6)	(4.1)	3.4	(96.8)
Change in unearned premiums ceded	23.0	21.9	2.8	1.9	49.6
Net premiums earned	**106.6**	**102.3**	**30.4**	**21.2**	**260.5**
Insurance losses and loss adjustment expenses	(8.0)	(5.5)	(74.8)	(17.4)	(105.7)
Insurance losses and loss adjustment expenses recoverable	11.5	(1.4)	34.3	-	44.4
Insurance acquisition expenses	(18.9)	(27.1)	(11.4)	(5.1)	(62.5)
Insurance acquisition expenses ceded	4.4	0.3	0.1	-	4.8
Net underwriting profit	**95.6**	**68.6**	**(21.4)**	**(1.3)**	**141.5**
Net unallocated income and expenses					(4.3)
Profit before tax					**137.2**
Net loss ratio	(3.3%)	6.7%	133.2%	82.1%	23.5%
Net acquisition cost ratio	13.6%	26.2%	37.2%	24.1%	22.1%
Expense ratio	-	-	-	-	13.2%
Combined ratio	**10.3%**	**32.9%**	**170.4%**	**106.2%**	**58.8%**

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

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

Revenue and expense by operating segment - for the six months ended 30 June 2012

Gross premiums written	$m	$m	$m	$m	$m
	Property	Energy	Marine	Aviation	Total
(Analysed by geographical region)					
Worldwide offshore	-	161.6	52.7	-	214.3
Worldwide, including the U.S. and Canada (1)	107.8	4.3	0.6	16.6	129.3
U.S. and Canada	62.1	0.7	-	-	62.8
Far East	32.2	0.1	-	-	32.3
Europe	25.6	-	-	-	25.6
Worldwide, excluding the U.S. and Canada (2)	20.6	0.6	-	-	21.2
Middle East	3.9	0.3	-	-	4.2
Rest of world	24.3	0.2	0.6	-	25.1
Total	**276.5**	**167.8**	**53.9**	**16.6**	**514.8**
Outwards reinsurance premiums	(100.2)	(25.5)	(19.6)	(3.9)	(149.2)
Change in unearned premiums	(85.1)	(51.5)	(15.1)	7.9	(143.8)
Change in unearned premiums ceded	49.9	14.6	3.4	2.0	69.9
Net premiums earned	**141.1**	**105.4**	**22.6**	**22.6**	**291.7**
Insurance losses and loss adjustment expenses	(70.1)	(17.5)	(77.3)	0.1	(164.8)
Insurance losses and loss adjustment expenses recoverable	25.2	(1.1)	48.3	-	72.4
Insurance acquisition expenses	(22.4)	(26.8)	(12.6)	(5.4)	(67.2)
Insurance acquisition expenses ceded	5.0	0.1	0.1	-	5.2
Net underwriting profit	**78.8**	**60.1**	**(18.9)**	**17.3**	**137.3**
Net unallocated income and expenses					(30.2)
Profit before tax					**107.1**
Net loss ratio	31.8%	17.6%	128.3%	(0.4%)	31.7%
Net acquisition cost ratio	12.3%	25.3%	55.3%	23.9%	21.3%
Expense ratio	-	-	-	-	14.2%
Combined ratio	**44.1%**	**42.9%**	**183.6%**	**23.5%**	**67.2%**

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

Revenue and expense by operating segment - for the year ended 31 December 2012

Gross premiums written	$m	$m	$m	$m	$m
	Property	Energy	Marine	Aviation	Total
(Analysed by geographical region)					
Worldwide offshore	-	229.4	79.7	-	309.1
Worldwide, including the U.S. and Canada (1)	124.5	5.8	0.6	45.9	176.8
U.S. and Canada	84.5	2.5	-	-	87.0
Far East	40.5	0.9	-	-	41.4
Europe	39.1	0.1	0.1	-	39.3
Worldwide, excluding the U.S. and Canada (2)	24.4	1.1	-	-	25.5
Middle East	7.8	0.3	-	-	8.1
Rest of world	35.7	0.8	0.6	-	37.1
Total	**356.5**	**240.9**	**81.0**	**45.9**	**724.3**
Outwards reinsurance premiums	(97.1)	(26.7)	(20.5)	(3.9)	(148.2)
Change in unearned premiums	18.7	(8.1)	(7.2)	0.4	3.8
Change in unearned premiums ceded	1.0	1.7	-	-	2.7
Net premiums earned	**279.1**	**207.8**	**53.3**	**42.4**	**582.6**
Insurance losses and loss adjustment expenses	(109.1)	(24.0)	(81.8)	(2.0)	(216.9)
Insurance losses and loss adjustment expenses recoverable	(3.6)	(2.8)	49.2	-	42.8
Insurance acquisition expenses	(44.0)	(52.5)	(23.3)	(10.4)	(130.2)
Insurance acquisition expenses ceded	10.0	0.5	0.2	0.1	10.8
Net underwriting profit	**132.4**	**129.0**	**(2.4)**	**30.1**	**289.1**
Net unallocated income and expenses					(52.3)
Profit before tax					**236.8**
Net loss ratio	40.4%	12.9%	61.2%	4.7%	29.9%
Net acquisition cost ratio	12.2%	25.0%	43.3%	24.3%	20.5%
Expense ratio	-	-	-	-	13.5%
Combined ratio	**52.6%**	**37.9%**	**104.5%**	**29.0%**	**63.9%**

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

3. Investment return

The total investment return for the Group is as follows:

For the six months ended 30 June 2013	$m Net investment income and other investment income	$m Net realised gains (losses) and impairments	$m Net change in unrealised gains/ losses	$m Total investment return excluding foreign exchange	$m Foreign exchange gains (losses)	$m Total investment return including foreign exchange
Fixed income securities	12.3	9.2	(37.4)	(15.9)	(3.5)	(19.4)
Other investments	3.8	2.9	-	6.7	3.5	10.2
Cash and cash equivalents	0.3	-	-	0.3	(0.4)	(0.1)
Total investment return	**16.4**	**12.1**	**(37.4)**	**(8.9)**	**(0.4)**	**(9.3)**

For the six months ended 30 June 2012	$m Net investment income and other investment income	$m Net realised gains (losses) and impairments	$m Net change in unrealised gains/ losses	$m Total investment return excluding foreign exchange	$m Foreign exchange gains (losses)	$m Total investment return including foreign exchange
Fixed income securities	16.9	6.3	11.7	34.9	(0.6)	34.3
Other investments	0.5	(1.4)	-	(0.9)	-	(0.9)
Cash and cash equivalents	0.2	-	-	0.2	-	0.2
Total investment return	**17.6**	**4.9**	**11.7**	**34.2**	**(0.6)**	**33.6**

For the year ended 31 December 2012	$m Net investment income and other investment income	$m Net realised gains (losses) and impairments	$m Net change in unrealised gains/ losses	$m Total investment return excluding foreign exchange	$m Foreign exchange gains (losses)	$m Total investment return including foreign exchange
Fixed income securities	32.2	13.4	18.1	63.7	0.7	64.4
Other investments	0.7	(1.6)	-	(0.9)	(1.7)	(2.6)
Cash and cash equivalents	0.3	-	-	0.3	-	0.3
Total investment return	**33.2**	**11.8**	**18.1**	**63.1**	**(1.0)**	**62.1**

There were no impairment losses on fixed income securities held by the Group recognised in net realised gains (losses) and impairments for the six months ended 30 June 2013 (30 June 2012 - $nil million; 31 December 2012 - $0.3 million). Realised gains and losses on futures, options contracts and swaps are included in net realised gains (losses) and impairments. The net impact of TBAs is $nil for all reporting periods. Included in investment income is $3.3 million (30 June 2012 - $2.1 million; 31 December 2012 - $4.0 million) of investment management, accounting and custodian fees.

4. Employee benefits

	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Wages and salaries	9.5	9.7	19.1
Pension costs	0.8	1.1	1.9
Bonus and other benefits	8.5	16.7	25.9
Total cash compensation	**18.8**	**27.5**	**46.9**
RSS - ordinary	5.8	3.8	12.0
RSS - bonus deferral	1.4	2.1	4.2
LTIP	-	-	0.2
Total equity based compensation	**7.2**	**5.9**	**16.4**
Total employee benefits	**26.0**	**33.4**	**63.3**

The Group's primary equity based compensation scheme is its RSS. Previously the Group also issued options to employees pursuant to an LTIP, which has been closed to further issues, and also authorised and issued warrants at its formation in 2005 and 2006.

5. Financing costs

	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Interest expense on long-term debt	6.2	2.8	7.2
Net (gains) losses on interest rate swap	(5.0)	2.4	4.1
Other financing costs	0.5	1.2	3.2
Total	**1.7**	**6.4**	**14.5**

Refer to note 11 for details of financing arrangements.

6. Tax charge

Bermuda

LHL, LICL and LUK have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 28 March 2035. At the present time no such taxes are levied in Bermuda.

United States

The Group does not consider itself to be engaged in trade or business in the U.S. and, accordingly, does not expect to be subject to U.S. taxation on its income or capital gains.

United Kingdom

LHL and the UK subsidiaries are subject to normal UK corporation tax on all their profits.

Tax charge	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Current tax charge for the period	1.8	1.3	1.1
Adjustments in respect of prior period corporation tax	-	-	(0.3)
Deferred tax charge (credit) for the period	1.3	2.1	0.7
Adjustments in respect of prior period deferred tax	-	-	0.4
Total tax charge	**3.1**	**3.4**	**1.9**

Tax reconciliation	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Profit before tax	137.2	107.1	236.8
UK corporation tax at 23.3% (25.3%, 24.5%)	31.9	27.0	58.0
Non-taxable income	(30.3)	(29.8)	(64.1)
Adjustments in respect of prior period	-	-	0.1
Differences related to equity based compensation	(0.7)	1.0	1.6
Other expense permanent differences	1.3	0.1	0.2
Tax rate change adjustment	-	0.3	0.6
Unused tax losses not recognised for deferred tax	0.9	4.8	5.5
Total tax charge	**3.1**	**3.4**	**1.9**

Due to the different tax paying jurisdictions throughout the Group the current tax charge as a percentage of the Group's profit before tax is 2.3 per cent (30 June 2012 - 3.2 per cent; 31 December 2012 - per cent).

A corporation tax credit of $0.9 million (30 June 2012 - $1.3 million; 31 December 2012 - $1.4 million) is recognised in other reserves which relates to tax deductions for equity based compensation award exercises in excess of the cumulative expense at the reporting date. Refer to note 9 for further details of tax credits included in other reserves.

Refer to note 7 for details of the tax expense related to the net change in unrealised gains and losses on investments that is included in accumulated other comprehensive income within shareholders' equity.

7. Investments

As at 30 June 2013	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	61.1	-	-	61.1
- U.S. treasuries	245.9	0.2	(1.5)	244.6
- Other government bonds	110.8	0.9	(6.6)	105.1
- U.S. municipal bonds	28.6	0.7	(0.3)	29.0
- U.S. government agency debt	103.1	-	(1.2)	101.9
- Asset backed securities	84.6	0.5	(0.3)	84.8
- U.S. government agency mortgage backed securities	320.0	3.8	(3.1)	320.7
- Non-agency mortgage backed securities	7.1	0.1	(0.1)	7.1
- Agency commercial mortgage backed securities	1.4	-	-	1.4
- Non-agency commercial mortgage backed securities	17.8	1.2	-	19.0
- Bank loans	74.4	0.1	(0.2)	74.3
- Corporate bonds	565.0	6.0	(5.1)	565.9
Total fixed income securities - available for sale	**1,619.8**	**13.5**	**(18.4)**	**1,614.9**
Other investments	2.5	8.9	(3.3)	8.1
Total investments	**1,622.3**	**22.4**	**(21.7)**	**1,623.0**

As at 30 June 2012	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	59.3	-	-	59.3
- U.S. treasuries	279.8	1.0	(0.1)	280.7
- Other government bonds	146.0	5.8	(1.7)	150.1
- U.S. municipal bonds	26.2	1.4	(0.1)	27.5
- U.S. government agency debt	127.6	0.7	-	128.3
- Asset backed securities	67.1	0.3	(0.1)	67.3
- U.S. government agency mortgage backed securities	402.0	10.0	(0.2)	411.8
- Non-agency mortgage backed securities	6.1	0.1	-	6.2
- Agency commercial mortgage backed securities	4.2	-	-	4.2
- Non-agency commercial mortgage backed securities	26.0	1.9	-	27.9
- Corporate bonds	573.9	11.3	(1.9)	583.3
- Corporate bonds - FDIC guaranteed	20.3	0.1	-	20.4
Total fixed income securities - available for sale	**1,738.5**	**32.6**	**(4.1)**	**1,767.0**
Other investments	(0.3)	0.9	(0.9)	(0.3)
Total investments	**1,738.2**	**33.5**	**(5.0)**	**1,766.7**

As at 31 December 2012	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	114.8	-	-	114.8
- U.S. treasuries	214.5	0.5	(0.1)	214.9
- Other government bonds	145.0	7.0	(1.1)	150.9
- U.S. municipal bonds	26.7	2.0	(0.1)	28.6
- U.S. government agency debt	130.4	1.2	-	131.6
- Asset backed securities	73.0	0.9	-	73.9
- U.S. government agency mortgage backed securities	394.1	9.2	(0.2)	403.1
- Non-agency mortgage backed securities	8.3	0.2	-	8.5
- Agency commercial mortgage backed securities	1.6	-	-	1.6
- Non-agency commercial mortgage backed securities	27.0	2.6	-	29.6
- Bank loans	37.4	0.1	(0.1)	37.4
- Corporate bonds	665.5	14.6	(0.5)	679.6
Total fixed income securities - available for sale	**1,838.3**	**38.3**	**(2.1)**	**1,874.5**
Other investments	(0.2)	0.7	(0.4)	0.1
Total investments	**1,838.1**	**39.0**	**(2.5)**	**1,874.6**

Accumulated other comprehensive income is in relation to the fixed income and equity securities classified as available for sale and is as follows:

	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
Gross unrealised gains	13.5	32.6	38.3
Gross unrealised losses	(18.4)	(4.1)	(2.1)
Net foreign exchange losses	4.0	1.6	0.3
Tax provision	(0.3)	(1.0)	(1.1)
Accumulated other comprehensive income	**(1.2)**	**29.1**	**35.4**

Refer to note 11 for details of the investment balances in trusts in favour of ceding companies and on deposit as collateral.

Other investments

To reduce the impact of a significant increase in interest rates, swaptions with a gross notional value of $2 billion are held in the investment portfolio as at 30 June 2013. The estimated fair value of these instruments is $7.2 million at 30 June 2013 (31 December 2012 - $nil, 30 June 2012 - $nil). These instruments reduce the duration of the investment portfolio by 0.4 years at 30 June 2013.

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

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

Level (ii)
Level (ii) investments include securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. Instruments included in level (ii) are valued via independent external sources using modeled or other valuation methods. Such methods are typically industry accepted standard and include:

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

Other similar quoted instruments or market transactions may be used.

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

- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency debt;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Bank loans
- Corporate bonds; and
- OTC derivatives, including futures, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and swaptions.

Level (iii)
Level (iii) includes securities for which valuation techniques are not based on observable market data. During the six months ended 30 June 2013 and 30 June 2012 and the year ended 31 December 2012, the Group did not hold any level (iii) investments.

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes, and the controls thereon, are subject to an annual audit on both the operation, and the effectiveness, of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by the Group's management. In accordance with the third-party investment accounting firm pricing policy, various recognised reputable pricing sources are used including index providers, broker-dealers, and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' and custodian's pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for the six months ended 30 June 2013 and 30 June 2012 and the year ended 31 December 2012.

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

As at 30 June 2013	**$m**	**$m**	**$m**
	Level (i)	**Level (ii)**	**Total**
Fixed income securities			
- Short-term investments	57.5	3.6	61.1
- U.S. treasuries	244.6	-	244.6
- Other government bonds	-	105.1	105.1
- U.S. municipal bonds	-	29.0	29.0
- U.S. government agency debt	-	101.9	101.9
- Asset backed securities	-	84.8	84.8
- U.S. government agency mortgage backed securities	-	320.7	320.7
- Non-agency mortgage backed securities	-	7.1	7.1
- Agency commercial mortgage backed securities	-	1.4	1.4
- Non-agency commercial mortgage backed securities	-	19.0	19.0
- Bank loans	-	74.3	74.3
- Corporate bonds	-	565.9	565.9
Total fixed income securities - available for sale	**302.1**	**1,312.8**	**1,614.9**
Other investments	-	8.1	8.1
Total investments	**302.1**	**1,320.9**	**1,623.0**

As at 30 June 2012	$m Level (i)	$m Level (ii)	$m Total
Fixed income securities			
- Short-term investments	59.3	-	59.3
- U.S. treasuries	280.7	-	280.7
- Other government bonds	-	150.1	150.1
- U.S. municipal bonds	-	27.5	27.5
- U.S. government agency debt	-	128.3	128.3
- Asset backed securities	-	67.3	67.3
- U.S. government agency mortgage backed securities	-	411.8	411.8
- Non-agency mortgage backed securities	-	6.2	6.2
- Agency commercial mortgage backed securities	-	4.2	4.2
- Non-agency commercial mortgage backed securities	-	27.9	27.9
- Corporate bonds	-	583.3	583.3
- Corporate bonds - FDIC guaranteed	-	20.4	20.4
Total fixed income securities - available for sale	**340.0**	**1,427.0**	**1,767.0**
Other investments	-	(0.3)	(0.3)
Total investments	**340.0**	**1,426.7**	**1,766.7**

As at 31 December 2012	$m Level (i)	$m Level (ii)	$m Total
Fixed income securities			
- Short-term investments	114.6	0.2	114.8
- U.S. treasuries	214.9	-	214.9
- Other government bonds	-	150.9	150.9
- U.S. municipal bonds	-	28.6	28.6
- U.S. government agency debt	-	131.6	131.6
- Asset backed securities	-	73.9	73.9
- U.S. government agency mortgage backed securities	-	403.1	403.1
- Non-agency mortgage backed securities	-	8.5	8.5
- Agency commercial mortgage backed securities	-	1.6	1.6
- Non-agency commercial mortgage backed securities	-	29.6	29.6
- Bank loans	-	37.4	37.4
- Corporate bonds	-	679.6	679.6
Total fixed income securities - available for sale	**329.5**	**1,545.0**	**1,874.5**
Other investments	-	0.1	0.1
Total investments	**329.5**	**1,545.1**	**1,874.6**

8. Losses and loss adjustment expenses

	$m Losses and loss adjustment expenses	$m Reinsurance recoveries	$m Net losses and loss adjustment expenses
As at 31 December 2011	**571.2**	**(69.7)**	**501.5**
Net incurred losses for:			
Prior years	(27.9)	(15.6)	(43.5)
Current year	192.7	(56.8)	135.9
Exchange adjustments	(6.3)	-	(6.3)
Incurred losses and loss adjustment expenses	**158.5**	**(72.4)**	**86.1**
Net paid losses for:			
Prior years	84.1	(5.0)	79.1
Current year	69.0	(28.4)	40.6
Paid losses and loss adjustment expenses	**153.1**	**(33.4)**	**119.7**
As at 30 June 2012	**576.6**	**(108.7)**	**467.9**
Net incurred losses for:			
Prior years	(5.6)	21.7	16.1
Current year	57.7	7.9	65.6
Exchange adjustments	(4.9)	-	(4.9)
Incurred losses and loss adjustment expenses	**47.2**	**29.6**	**76.8**
Net paid losses for:			
Prior years	50.3	(3.2)	47.1
Current year	36.1	(2.9)	33.2
Paid losses and loss adjustment expenses	**86.4**	**(6.1)**	**80.3**
As at 31 December 2012	**537.4**	**(73.0)**	**464.4**
Net incurred losses for:			
Prior years	37.1	(44.4)	(7.3)
Current year	68.6	-	68.6
Exchange adjustments	(13.6)	-	(13.6)
Incurred losses and loss adjustment expenses	**92.1**	**(44.4)**	**47.7**
Net paid losses for:			
Prior years	100.4	(30.2)	70.2
Current year	15.3	-	15.3
Paid losses and loss adjustment expenses	**115.7**	**(30.2)**	**85.5**
As at 30 June 2013	**513.8**	**(87.2)**	**426.6**

The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20 per cent increase in estimated losses would lead to a $102.8 million (30 June 2012 - $115.3 million; 31 December 2012 - $107.5 million) increase in loss reserves. There was no change to the Group's reserving methodology during the reporting period.

The split of gross losses and loss adjustment expenses between notified outstanding losses, additional case reserves assessed by management and losses incurred but not reported is shown below:

	30 Jun 2013		30 Jun 2012		31 Dec 2012	
	$m	%	$m	%	$m	%
Outstanding losses	273.0	53.1	353.0	61.2	306.2	57.0
Additional case reserves	93.7	18.3	82.2	14.3	98.3	18.3
Losses incurred but not reported	147.1	28.6	141.4	24.5	132.9	24.7
Total	**513.8**	**100.0**	**576.6**	**100.0**	**537.4**	**100.0**

The Group's reserve for unpaid losses and loss adjustment expenses for all periods had an estimated duration of approximately two years.

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

	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
2006 accident year	(1.4)	0.2	0.4
2007 accident year	(0.8)	1.8	2.3
2008 accident year	(1.5)	(0.5)	1.7
2009 accident year	1.4	5.7	7.1
2010 accident year	0.1	11.5	6.4
2011 accident year	7.1	24.8	9.5
2012 accident year	2.4	-	-
Total favourable development	**7.3**	**43.5**	**27.4**

The favourable prior year development in 2013 arose primarily from IBNR releases due to fewer than expected reported losses, a benefit from the settlement on our North East ILW in relation to Sandy and releases on the settlement of outstanding losses. This favourable development was offset to an extent by unfavourable development of $37.7 million after reinsurance and reinstatement premium on the Costa Concordia marine loss. The favourable prior year development in 2012 arose primarily from IBNR releases due to fewer than expected reported losses.

During 2012 the Group was impacted by significant losses in relation to Sandy. Management's current best estimate of the ultimate net loss in relation to this event is $28.9 million. The 90th percentile of the loss distribution for this estimate is $34.1 million with the 95th percentile being $35.9 million. Significant uncertainty exists on the eventual ultimate loss in relation to this event.

During 2012 the Group was also impacted by significant losses in relation to the total loss of the Costa Concordia. Management's current best estimate of the ultimate net loss in relation to this event is $96.9 million. The 90th percentile of the loss distribution for this estimate is $104.3 million with the 95th percentile being $106.8 million. Significant uncertainty exists on the eventual ultimate loss in relation to this event.

During 2011 the Group was impacted by significant losses in relation to the Japan Tohoku earthquake and following tsunami. Management's current best estimate of the ultimate net loss in relation to this event is $118.7 million. The 90th percentile of the loss distribution for this estimate is $129.9 million with the 95th percentile being $133.7 million. Significant uncertainty exists on the eventual ultimate losses in relation to this event.

The estimated ultimate net losses, after reinstatement premiums, on the Group of these significant losses are as follows:

	$m Sandy	$m Costa Concordia	$m Japan
Net ultimate losses as at 31 December 2011	**-**	**-**	**117.3**
Change in insurance losses and loss adjustment expenses	-	90.6	2.8
Change in insurance losses and loss adjustment expenses recoverable	-	(44.9)	-
Change in reinstatement premium	-	13.0	-
Net ultimate losses as at 30 June 2012	**-**	**58.7**	**120.1**
Change in insurance losses and loss adjustment expenses	46.0	2.2	0.9
Change in insurance losses and loss adjustment expenses recoverable	-	(2.1)	-
Change in reinstatement premium	(1.5)	0.4	(2.0)
Net ultimate losses as at 31 December 2012	**44.5**	**59.2**	**119.0**
Change in insurance losses and loss adjustment expenses	2.6	67.5	(0.5)
Change in insurance losses and loss adjustment expenses recoverable	(18.2)	(34.2)	-
Change in reinstatement premium	-	4.4	0.2
Net ultimate losses as at 30 June 2013	**28.9**	**96.9**	**118.7**

9. Deferred tax asset

	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
Deferred tax assets (related to equity based compensation)	8.4	7.9	9.5
Deferred tax liabilities (related to claims equalisation reserves)	(2.7)	(2.1)	(2.2)
Net deferred tax asset	**5.7**	**5.8**	**7.3**

A deferred tax debit of $0.3 million (30 June 2012 - $0.3 million debit; 31 December 2012 - $0.2 million credit) was recognised in other reserves which relates to deferred tax credits for unexercised equity based compensation awards where the estimated market value is in excess of the cumulative expense at the reporting date.

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Lancashire UK group of companies in 2013 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset has not been recognised in relation to unused tax losses carried forward in the ultimate parent undertaking, as at present, the related tax benefit is not expected to be realised through future taxable profits.

The UK government has announced its intent to legislate to reduce the rate of corporation tax to 20.0 per cent with effect from 1 April 2015. It is estimated that the effect of these changes will be to reduce the company's deferred tax asset by approximately $0.7 million.

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

10. Investment in associates

AHL

The Group has a 20 per cent interest, representing a commitment of up to $50.0 million, in AHL, a company incorporated in Bermuda. AHL's operating subsidiary, ARL, is authorised as a Special Purpose Insurer by the BMA.

ARL assumes worldwide property retrocession risks from LICL. AHL is an unquoted investment and its shares do not trade on an active market. At 30 June 2013 the Group's capital commitment in AHL was $29.2 million. As at 30 June 2013 the carrying value of the Group's investment in AHL was $42.6 million (30 June 2012 - $43.5 million; 31 December 2012 - $49.7 million). The Group's share of comprehensive income for AHL for the period was $4.8 million (30 June 2012 - $1.5 million; 31 December 2012 - $7.7 million). Investments in associates are generally deemed non-current. Key financial information for AHL is as follows:

	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
Assets	256.0	272.7	272.5
Liabilities	45.1	55.6	26.0
Shareholders' equity	210.9	210.5	246.5
Amounts advanced in respect of shares to be issued	-	6.6	-
Gross premiums earned	28.6	34.2	66.6
Comprehensive income	24.4	7.3	36.7

Refer to note 14 for details of transactions between the Group, AHL and ARL.

SHL

The Group holds a 16.9 per cent interest (30 June 2012 - nil; 31 December 2012 - 20.0 per cent) in the common shares of SHL, a company incorporated in Bermuda. SHL's operating subsidiary, SRL, is authorised as a Special Purpose Insurer by the BMA.

SRL is a market facing vehicle underwriting a combined exposure ultimate net loss aggregate reinsurance product. SRL commenced writing insurance business at 1 January 2013. At 30 June 2013 the Group's capital commitment in SHL was $9.6 million. As at 30 June 2013 the carrying value of the Group's investment in SHL was $11.0 million (30 June 2012 - $nil; 31 December 2012 - $32.4 million). The Group's share of comprehensive income for SHL for the period was $1.4 million (30 June 2012 - $nil; 31 December 2012 - $nil). Key financial information for SHL is as follows:

	30 Jun 2013 $m	31 Dec 2012 [1] $m
Assets	77.7	192.3
Liabilities	12.7	-
Shareholders' equity	65.0	192.3
Gross premiums earned	12.4	-
Comprehensive income	8.2	-

[1] From the date of incorporation, 29 October 2012, to 31 December 2012

Refer to note 14 for details of transactions between the Group, SHL and SRL.

11. Letters of credit

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral. LHL and LICL had the following facilities in place as of 30 June 2013 and 2012 and 31 December 2012:

(i) a $350.0 million syndicated collateralised credit facility with $75.0 million loan sub-limit that has been in place since 5 April 2012 and will expire on 5 April 2017. There was no outstanding debt under this facility at 30 June 2013 (30 June 2012 - $nil; 31 December 2012 - $nil); and
(ii) a $400.0 million bi-lateral uncommitted LOC facility with Citibank Europe PLC.

The facilities are available for the issue of LOCs to ceding companies. The facilities are also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The terms of the $350.0 million LOC facility include standard default and cross-default provisions which require certain covenants to be adhered to. These include the following:

(i) an A.M. Best financial strength rating of at least B++; and
(ii) a maximum debt to capital ratio of 30 per cent, where the subordinated loan notes due in 2035 are excluded from this calculation.

As at all reporting dates the Group was in compliance with all covenants under these facilities. The $400.0 million bi-lateral uncommitted LOC facility does not contain default provisions or covenants.

The following LOCs have been issued:

	30 Jun 2013 $m	30 Jun 2012 $m	31 Dec 2012 $m
Issued to third parties	20.3	9.4	17.2

LOCs are required to be fully collateralised.

Trusts
The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012 LICL entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As of 30 June 2013 LICL had been granted authorised or trusteed reinsurer status in the states of New York, Massachusetts and Texas. The MBRT is subject to the rules and regulations of the aforementioned states and the respective deed of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at all reporting dates the Group was in compliance was in compliance with all covenants under its trust facilities.

The following cash and cash equivalents and investment balances were held in trust and other collateral accounts in favour of third parties:

As at 30 June 2013	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
MBRT accounts	0.7	20.2
In various trust accounts for policyholders	4.0	9.5
In favour of letters of credit	3.6	20.0
In favour of derivative contracts	0.3	1.1
Total	**8.6**	**50.8**

As at 30 June 2012	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	31.9	148.9
In favour of letters of credit	10.3	-
In favour of derivative contracts	0.4	1.2
Total	**42.6**	**150.1**

As at 31 December 2012	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
MBRT accounts	-	20.2
In various trust accounts for policyholders	12.5	123.6
In favour of letters of credit	3.3	17.0
In favour of derivative contracts	-	0.4
Total	**15.8**	**161.2**

12. Share capital

Allocated, called up and fully paid	Number	$m
As at 31 December 2011 and 2012 and 30 June 2012 and 2013	**168,602,427**	**84.3**

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2011	**10,513,326**	**69.2**	**1,267,421**	**13.8**	**11,780,747**	**83.0**
Shares distributed	(774,207)	(4.7)	(2,466,383)	(28.5)	(3,240,590)	(33.2)
Shares donated to trust	(2,901,233)	(17.4)	2,901,233	35.8	-	18.4
As at 30 June 2012	**6,837,886**	**47.1**	**1,702,271**	**21.1**	**8,540,157**	**68.2**
Shares distributed	(1,027,303)	(6.4)	(381,785)	(4.7)	(1,409,088)	(11.1)
As at 31 December 2012	**5,810,583**	**40.7**	**1,320,486**	**16.4**	**7,131,069**	**57.1**
Shares distributed	(100,761)	(0.7)	(1,664,115)	(21.9)	(1,764,876)	(22.6)
Shares donated to trust	(1,862,138)	(13.1)	1,862,138	25.9	-	12.8
As at 30 June 2013	**3,847,684**	**26.9**	**1,518,509**	**20.4**	**5,366,193**	**47.3**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2013 was 164,754,743 (30 June 2012 - 161,764,541; 31 December 2012 - 162,791,844).

Share repurchases

At the AGM held on 1 May 2013 the Group's shareholders approved a renewal of the Repurchase Programme (the "Repurchase Programme") authorising the repurchase of a maximum of 16,860,242 shares, with such authority to expire on the conclusion of the 2014 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed.

The group has not utilised its Repurchase Programme since 16 September 2010. As at all reporting periods the maximum number of shares under the Group's Repurchase Program remained to be purchased and no amounts remained to be settled.

The trustees of the EBT acquired nil shares (30 June 2012 and 31 December 2012 - nil) in accordance with the terms of that trust and distributed 1,664,115 shares (30 June 2012 - 2,466,383; 31 December 2012 - 2,848,168). There were no unsettled balances in relation to EBT purchases at any of the balance sheet dates.

Dividends

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	16 Mar 2012	18 Apr 2012	19.2
Interim	$0.05	31 Aug 2012	26 Sep 2012	9.6
Special	$0.90	30 Nov 2012	19 Dec 2012	172.6
Final	$0.10	22 Mar 2013	17 Apr 2013	19.2
Special	$1.05	22 Mar 2013	17 Apr 2013	201.4

13. Earnings per share

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

	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Profit for the period attributable to equity shareholders	134.1	103.7	234.9

	Number of shares	Number of shares	Number of shares
Basic weighted average number of shares	159,420,916	158,661,126	159,575,802
Dilutive effect of RSS	3,284,420	3,477,721	4,278,094
Dilutive effect of LTIP	-	112,437	123,444
Dilutive effect of warrants	18,261,979	18,875,269	18,194,380
Diluted weighted average number of shares	**180,967,315**	**181,126,553**	**182,171,720**

Earnings per share	Six months 2013	Six months 2012	Twelve months 2012
Basic	$0.84	$0.65	$1.47
Diluted	$0.74	$0.57	$1.29

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

14. Related party disclosures

Key management compensation

Remuneration for key management (the Group's executive directors and non-executive directors) was as follows:

	Six months 2013 $m	Six months 2012 $m	Twelve months 2012 $m
Short-term compensation	2.9	10.3	13.7
Equity based compensation	2.8	2.8	7.4
Directors' fees and expenses	1.0	0.8	1.7
Total	**6.7**	**13.9**	**22.8**

The Directors' fees and expenses includes $0.2 million (30 June 2012 - $0.2 million; 31 December 2012 - $0.4 million) paid to significant shareholders.

Transactions with associates

During the first half of 2013 AHL returned previously called capital requirements to the Group in the amount of $11.8 million (30 June 2012 - $8.9 million; 31 December 2012 - $8.9 million).

In relation to transactions with ARL, the following amounts were included in the consolidated statement of comprehensive income and the consolidated balance sheet:

	Six months 2013 $m	Six months 2012 $m	Twelve months 2013 $m
Consolidated statement of comprehensive income			
Outwards reinsurance premiums	47.7	60.9	64.8
Insurance loss and loss adjustment expenses recoverable	2.2	17.7	17.7
Insurance acquisition expenses ceded	6.5	8.1	9.0
Consolidated balance sheet			
Reinsurance recoveries	19.9	17.7	17.7
Unearned premiums on premiums ceded	22.4	32.2	3.5
Amounts payable to reinsurers	(23.9)	(40.0)	(18.4)
Deferred acquisition costs ceded	(3.1)	(4.2)	(0.6)

Contingent profit commission may be payable to the Group based on the ultimate performance of ARL.

On 5 February 2013 SHL returned previously called capital requirements to the Group in the amount of $22.9 million.

During 2012 SML entered into an underwriting services agreement with SRL and SHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the period ended 30 June 2013 SML earned $0.6 million in fees under this agreement which is included in other income. (30 June 2012 - $nil; 31 December 2012 - $nil)

Refer to Note 10 for further details on the Group's investment in associates.

Subsidiaries
On 4 June 2013 KCML, a subsidiary of LHL, was incorporated in Bermuda. KCML is expected to provide insurance management services. KCML did not enter into any material transactions during the six months ended 30 June 2013.

15. Statutory requirements and dividend restrictions

Annual statutory capital and surplus reported to regulatory authorities by the primary operating subsidiaries was as follows:

As at 31 December 2012	$m	£m
	LICL	LUK
Statutory capital and surplus	1,293.8	115.3
Minimum required statutory capital and surplus	255.5	23.8

Interim unaudited statutory capital and surplus was as follows:

As at 30 June 2013	$m	£m
	LICL	LUK
Statutory capital and surplus	1,134.1	126.8
Minimum required statutory capital and surplus	137.3	25.9

As at 30 June 2012	$m	£m
	LICL	LUK
Statutory capital and surplus	1,244.5	126.8
Minimum required statutory capital and surplus	164.7	30.1

At all balance sheet dates the capital requirements of both regulatory jurisdictions were met.

16. Subsequent events

Dividend
On 24 July 2013 the Board of Directors declared the payment of an interim ordinary dividend of $0.05 cents per common share (approximately £0.07 pence per common share) to shareholders of record on 23 August 2013, with a settlement date of 25 September 2013. The total dividend payable will be approximately $9.6 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Statement of Director's responsibilities

The Directors confirm that this set of unaudited condensed interim consolidated financial statements has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and where IFRS is silent, as it is in respect of the measurement of insurance products, U.S. generally accepted accounting principles have been used and the interim management report herein includes a fair review of the information required by Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and DTR 4.2.8R (disclosure of related parties' transactions and changes therein). The Directors also confirm that, in view of the financial statements and the information contained within the interim management report, the business is a going concern.

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INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Introduction

We have been engaged by Lancashire Holdings Limited to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flow and the related explanatory notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

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Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP
London
24 July 2013

Additional case reserves
Additional reserves deemed necessary by management

AIM
A sub-market of the LSE

Aggregate
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to multiple causes

AGM
Annual General Meeting

AHL
Accordion Holdings Limited

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

ARL
Accordion Reinsurance Limited

BMA
Bermuda Monetary Authority

BSX
Bermuda Stock Exchange

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

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

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

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

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

Earnings per share (EPS)
Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT
Lancashire Holdings Employee Benefit Trust

EMD
Emerging market debt

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

FDIC Guaranteed Corporate Bonds
Corporate bonds protected by the Federal Deposit Insurance Corporation, an agency of the U.S. government

Fully converted book value per share (FCBVS)
Calculated by dividing the value of the total shareholders' equity plus the proceeds that would be received from the exercise of all dilutive equity compensation awards, by the sum of all shares, including equity compensation awards assuming all are exercised

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

The Group
LHL and its subsidiaries

HMRC
Her Majesty's Revenue & Customs

IFRS
International Financial Reporting Standard(s)

Incurred but not reported (IBNR)
These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses.

ILW
Industry Loss Warranty

International Accounting Standard(s) (IAS)
Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)
An international panel of accounting experts responsible for developing IAS and IFRS

IRR
Internal rate of return

KCML
Kinesis Capital Management Limited

Lancashire UK group of companies
Includes LHL, LUK, Lancashire Insurance Holdings (UK) Limited, Lancashire Insurance Services Limited, and Lancashire Insurance Marketing Services Limited

LHL
Lancashire Holdings Limited

LICL
Lancashire Insurance Company Limited

LOC
Letter of credit

Losses
Demand by an insured for indemnity under an insurance contract

LSE
London Stock Exchange

LTIP
Long-term incentive plan

LUK
Lancashire Insurance Company (UK) Limited

Moody's Investor Service (Moody's)
Moody's is a leading provider of credit ratings, research and risk analysis

MBRT
Multi-beneficiary reinsurance trust

Net acquisition cost ratio
Ratio, in per cent, of net acquisition expenses to net premiums earned

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

Net operating profit
Profit before tax excluding realised gains and losses and foreign exchange gains and losses

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

Pro-rata/proportional
Reinsurance or insurance where the reinsured or insured shares a proportional part of the original premiums and losses of the reinsured or insured

Retrocession
The reinsurance of the reinsurance account

Return on Equity (RoE)
The IRR of the change in FCBVS in the period plus accrued dividends

RPI
Renewal Price Index

RSS
Restricted share scheme

SHL
Saltire Holding Limited

SML
Saltire Management Limited.

SRL
Saltire Re I Limited

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

TBAs
Mortgage backed "to be announced" securities

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

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', 'WILL', 'SEEKS', 'SHOULD', OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THOSE REGARDING THE TAX RESIDENCY OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP"), ITS FINANCIAL POSITION, RESULTS OF OPERATIONS, LIQUIDITY, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS, 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 NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS 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; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; 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; 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 HOLDINGS LIMITED OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE NEW UK CFC REGIME; ANY CHANGE IN THE UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME; AND THE NEGATIVE IMPACT IN ANY MATERIAL WAY OF THE CHANGE IN TAX RESIDENCE OF LANCASHIRE HOLDINGS LIMITED ON ITS STAKEHOLDERS.

THESE FORWARD-LOOKING STATEMENTS 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.