lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2014

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Financial highlights

	30 Jun 2014	30 Jun 2013	31 Dec 2013
Fully converted book value per share	$7.67	$7.19	$7.50
Return on equity - ytd	6.4%	7.0%	18.9%
Operating return on average equity - ytd	7.0%	8.5%	12.5%

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Twelve months ended 31 Dec 2013
Highlights ($m)			
Gross premiums written	635.1	423.9	679.7
Net premiums written	494.9	307.7	557.6
Profit before tax	98.9	137.2	218.1
Profit after tax attributable to Lancashire	104.9	134.1	222.5
Comprehensive income attributable to Lancashire	115.1	97.5	190.0
Net operating profit attributable to Lancashire	106.3	121.5	184.2
Per share data			
Diluted earnings per share	$0.53	$0.74	$1.17
Diluted earnings per share - operating	$0.54	$0.67	$0.97
Financial ratios			
Total investment return	0.9%	(0.5%)	0.3%
Net loss ratio	34.5%	23.5%	33.1%
Combined ratio	70.6%	58.8%	70.2%
Accident year loss ratio	34.0%	26.2%	36.1%

Dividends

Type	Per share amount	Record date	Payment date	$m
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	10.5
Special	$0.45	29 Nov 2013	20 Dec 2013	94.5
Final	$0.10	21 Mar 2014	16 April 2014	21.1
Special	$0.20	21 Mar 2014	16 April 2014	42.1
Interim	$0.05	29 Aug 2014	24 Sep 2014	10.5

Alex Maloney, Group Chief Executive Officer, commented:

"There can be no doubt that the additional capital in our industry, not just new capital but also the undistributed retained earnings of many of our peers, is driving competition on pricing, terms and conditions. Most of this competition is still responsible and leaves acceptable underwriting margins and volumes for those underwriters like Lancashire, Cathedral and Kinesis who have the ability, experience and track-record that clients and brokers rely on to lead and structure policies. However there are areas of the market where there are instances of indiscipline, and Lancashire is always prepared to let underpriced business go. There have been some industry loss developments from prior years and events, but the first half of 2014 itself has been relatively quiet in terms of major loss events, so there is no catalyst for pricing to move upward.

Lancashire's strategy since day one has always been to write the most exposure in a hard market and the least in a soft one. There are now abundant reinsurance and retrocession opportunities that allow us to maintain our core insurance and reinsurance portfolios, whilst significantly reducing net exposures. From our peak exposures in April 2012, when losses had driven substantial market hardening, we have reduced exposures across the board. We will stick to our strategy in the knowledge that when an event comes, we are well prepared through all three of our platforms to take advantage of subsequent opportunity.

There is some discussion about whether pricing has reached a floor, and there have been signs of over-ambitiously priced programmes being rejected. But on the whole we think there is still pressure on pricing and, with business more scarce in the second half of the year, we wouldn't be surprised to see some aggressive renewal targets. But we can mitigate the effects of up-front pricing impacts with very substantial savings on our own reinsurance and retrocession purchases, and for LICL and LUK we've also bought substantially more limit this year for both risk and cat covers. Cathedral has always been a buyer of extensive reinsurance but has also managed to improve retentions, breadth of cover and costs.

The continuing co-operation between the Group entities at an operating level is very pleasing with strong involvement from Cathedral and Kinesis at the Risk and Return and Executive Committees in product line reviews and in cross-selling and marketing. In particular we have been delighted with the support from brokers and clients for our new energy and terrorism lines in Syndicate 3010; for the energy line in particular this has exceeded expectations.

The furtherance of our market-beating loss and combined ratios is evidence that the Lancashire strategy and team continue to deliver. We are dedicated to continuing to out-perform across the cycle, and believe we are well positioned to do this."

Elaine Whelan, Group Chief Financial Officer, commented:

"The Group produced an RoE of 6.4% for the first half of 2014 with a combined ratio of 70.6%. Richard Brindle's retirement package and warrant exercises reduced RoE for the first half of 2014 by 1.2%. Excluding that impact, our RoE would have been 7.6% for the first half of 2014. RoE for the Lancashire Companies was 5.3% with Cathedral adding 1.3%. Acquisition adjustments reduced RoE by 0.2%.

Despite some mixed news on prior accident year claims, there were no major catastrophe losses in the first half of 2014 and we produced a respectable loss ratio of 34.5%. Our investment portfolio delivered a reasonable return of 0.9%.

With the continued pressure on the trading environment, we expect to manage our risk levels accordingly. As ever, the balance of capital we hold will match the underwriting opportunities we foresee. If there are no major events, and no change in the market, it remains likely that we will return the majority, if not all, of 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 does not take into account any business or contracts of the Cathedral Group.

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 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.

The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2013:

Class	30 Jun 2014 %
Aviation (AV52)	89
Gulf of Mexico energy	92
Energy offshore worldwide	93
Marine	104
Property retrocession and reinsurance	87
Terrorism	93
Combined	**93**

Underwriting results

Gross premiums written	Six months ended 30 Jun 2014 $m	Six months ended 30 Jun 2013 $m	Change $m	Change %
Property	187.4	218.8	(31.4)	(14.4)
Energy	177.2	143.1	34.1	23.8
Marine	48.6	42.3	6.3	14.9
Aviation	31.7	19.7	12.0	60.9
Lloyd's	190.2	-	190.2	-
Total	**635.1**	**423.9**	**211.2**	**49.8**

Gross premiums written increased by 49.8 per cent in the first six months of 2014 compared to the same period in 2013. The increase in premiums is derived primarily from the new Lloyd's segment following the acquisition of Cathedral in the fourth quarter of 2013. The Group's five principal classes, and the key market factors impacting them, are discussed on the following pages.

Property gross premiums written decreased by 14.4 per cent in the first six months of 2014 compared to the first six months of 2013. The decrease is driven primarily by reductions in the property retrocession book at the January 1 2014 renewals as pricing came under pressure, plus two other main factors:

- Sovereign and political risk binding was substantially lower. This is the nature of the account where only a small proportion of the business is renewable as most of it is specific-project related.
- We reduced exposures and premiums in some areas of the property catastrophe excess of loss book, New Zealand being one such example.

The decrease was partially offset by the growth of the core property catastrophe excess of loss portfolio in the first half of 2014.

Energy gross premiums written increased by 23.8 per cent in the first six months of 2014 compared to the first six months of 2013. The increase in premiums is driven primarily by the Gulf of Mexico offshore energy book where a number of both new and renewing deals were written on a multi-year basis. These increases are somewhat offset by decreases in the worldwide offshore energy class where non-annual contracts written in the second quarter of 2013 are not due for renewal yet. Volumes across other energy lines are fairly flat on both a quarter and year to date basis.

Marine gross premiums written increased by 14.9 per cent in the first six months of 2014 compared to the first six months of 2013. The increase is due to non-annual contract renewals in the marine hull subclass in the first half of 2014 and increased premiums on loss-affected accounts.

Aviation gross premiums written increased by 60.9 per cent in the first six months of 2014 compared to the first six months of 2013. The increase for the first six months of 2014 compared to the same period in 2013 is mainly due to some new satellite business, plus additional satellite launches on contracts written in previous years. Satellite launch, like sovereign and political risk is not a renewable portfolio, and the timing of income can be unpredictable. The small increase in AV52 premiums written in the first six months of 2014 compared to the first six months of 2013 is driven by adjustments to prior year contracts. Pricing and renewal rates remain under pressure in this class.

The first half of 2014 reflects the first full six month period of gross premiums written attributable to the Lloyd's segment since the Cathedral acquisition in the fourth quarter of 2013. The Lloyd's segment gross premiums written in the six months ended 30 June 2014 were $190.2 million, $12.2 million or 6.4% lower than the corresponding period of 2013 (prior to the acquisition by Lancashire). The decrease largely reflects rate reductions, particularly in the property reinsurance sub-class, and the non-renewal of an aviation quota share where rates were no longer acceptable. These reductions were offset in part by the new energy and terrorism classes of business being written by Syndicate 3010.

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Ceded reinsurance premiums increased by $24.0 million, or 20.7 per cent, for the six-month period to 30 June 2014 compared to the same period in 2013. In the six month period to 30 June 2013, $47.7 million of premiums were ceded to the Accordion sidecar. The quota share to the sidecar was commuted in the first quarter of 2014 and no further premiums have been ceded to the vehicle this year. This reduction was offset by $49.5 million of ceded premiums in relation to the Lloyd's segment. Lancashire also took advantage of lower reinsurance rates to purchase some new non-marine retrocession aggregate cover and to buy substantial additional limits for the marine, energy, AV52 and terrorism programmes.

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Net premiums earned as a proportion of net premiums written were 73.0 per cent in the six months to 30 June 2014, compared to 84.7 per cent in the same period in 2013. The decreased percentage compared to the same period in 2013 reflects the impact of increased multi-year premiums written in the property catastrophe excess of loss and Gulf of Mexico offshore energy classes in 2014.

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The Group's net loss ratio was 34.5 per cent for the six month period to 30 June 2014 compared to 23.5 per cent for the same period in 2013. There were no significant losses in the first six months of 2014 and attritional losses reported were also relatively low. For the first six months of 2013 attritional losses were exceptionally low. The first half of 2013 included the benefit of the settlement reached for our North East ILW in relation to Sandy.

Prior year adverse development was $1.9 million for the 2014 year to date compared to favourable development of $7.3 million for the same period in 2013. The adverse prior year development in 2014 arose primarily from development on prior accident year mid-sized marine and energy claims somewhat offset by releases across a number of mid-sized claims and IBNR releases. The favourable development in the first half of 2013 included the ILW settlement mentioned above, IBNR releases due to fewer than expected reported losses and releases on the settlement of outstanding losses. This favourable development was offset to an extent by the deterioration of the Costa Concordia loss of $37.7 million, after reinsurance and reinstatement premiums.

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 2014	Losses $m	Loss ratio %
At 30 June 2014	124.7	34.5
Absent prior year development	122.8	34.0
Adjusted loss ratio	**122.8**	**34.0**

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 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.

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 2014 $m	Six months ended 30 Jun 2013 $m
Property	17.3	12.8
Energy	(7.8)	21.5
Marine	(15.2)	(25.6)
Aviation	-	(1.4)
Lloyd's	3.8	-
Total	**(1.9)**	**7.3**

Note: Positive numbers denote favourable development.

The year to date accident year loss ratio, including the impact of foreign exchange revaluations, was 34.0 per cent compared to 26.2 per cent for the six months to 30 June 2013. The 2014 accident year loss ratio for six months ended 30 June 2014 does not include any significant large losses. The corresponding period of 2013 also included low levels of current accident year losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the first half of 2014 and 2013:

	Six months ended 30 Jun 2014 $m	Six months ended 30 Jun 2013 $m
2006 accident year and prior	0.2	(1.4)
2007 accident year	(0.3)	(0.8)
2008 accident year	2.2	(1.5)
2009 accident year	2.5	1.4
2010 accident year	4.0	0.1
2011 accident year	(3.6)	7.1
2012 accident year	1.3	2.4
2013 accident year	(8.2)	-
Total	**(1.9)**	**7.3**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 29.4 per cent compared to 33.7 per cent at 30 June 2013.

Investments

Net investment income, was $14.7 million for the first half of 2014, an increase of 16.7% from the first half of 2013 mainly due to the increased size of the investment portfolio resulting from the acquisition of Cathedral. 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 $20.1 million for the first half of 2014 compared to a loss of $8.1 million for the first half of 2013. The decline in treasury yields during 2014, combined with the narrowing of credit spreads, led to positive returns in the Group's fixed income portfolio. In the corresponding period of 2013, investment returns were negatively impacted by widening spreads, particularly emerging market debt credit spreads, as well as a spike in treasury yields.

The corporate bond allocation represents 28.5% of managed invested assets at 30 June 2014 compared to 28.4% at 30 June 2013. At 30 June 2014 the Group's allocation to bank loans represents 5.8% of the portfolio compared to 3.7% at 30 June 2013. The allocation to bank loans, our tail risk hedge, plus our new allocation to a diversified portfolio of low volatility hedge funds is part of our interest rate risk management strategy to protect the investment portfolio from a significant increase in treasury yields.

The managed portfolio was invested as follows:

	30 Jun 2014 %	30 Jun 2013 %	31 Dec 2013 %
Fixed income securities	84.1	80.9	84.4
Cash and cash equivalents	11.4	18.7	14.7
Equity securities	0.7	-	0.7
Hedge funds	3.7	-	-
Other investments	0.1	0.4	0.2
Total	**100.0**	**100.0**	**100.0**

Key investment portfolio statistics are:

	30 Jun 2014	30 Jun 2013	31 Dec 2013
Duration	1.3 years	1.3 years	1.0 years
Credit quality	AA-	AA-	AA-
Book yield	1.3%	1.5%	1.4%
Market yield	1.1%	1.4%	1.2%

Lancashire Capital Management

The $2.5 million share of profit of associates for the first six months of 2014 mostly reflects Lancashire's 10% equity interest in the Kinesis vehicle. The share of profit of associates was $6.2 million for the six months to 30 June 2013 and related to the Accordion and Saltire vehicles.

Other income recorded for the six months to 30 June 2014 includes $1.4 million for underwriting services to the Kinesis vehicle, $3.5 million of profit commission and managing agent's fees relating to the Lloyd's segment and $3.0 million of final profit commission from the Saltire vehicle. During the first half of 2014 final profit commission of $6.7 million was also received from the Accordion vehicle. This was recorded in net insurance acquisition costs.

CEO retirement

Lancashire's founding CEO retired during the first half of 2014. In recognition of his contribution to the Group, and in line with his contractual entitlements, he received a retirement package approved by the Board. This included salary and benefits of $1.8 million, included in other operating expenses, and an accelerated vesting and cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that had accrued on the RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within shareholders' equity. The accelerated vesting gave rise to an equity based compensation charge of $3.5 million.

Other operating expenses

Operating expenses consist of the following items:

	Six months ended 30 Jun 2014 $m	Six months ended 30 Jun 2013 $m
Employee salaries and benefits	22.5	17.3
Payroll taxes and national insurance on equity compensation	(4.2)	1.5
Other operating expenses	26.2	15.5
Total Lancashire, excluding Lloyd's segment	**44.5**	**34.3**
Lloyd's segment	13.1	-
Total	**57.6**	**34.3**

Lancashire's employee remuneration costs were higher in the first six months of 2014 compared to the same period in the prior year due to the retirement of the CEO noted above and a slight increase in headcount. The six months to June 2014 included reversals of employee national insurance accruals in relation to equity compensation exercises driven by both the timing of exercises and fluctuations in the share price. Other operating expenses included $6.9 million for the six months to June 2014 relating to the amortisation of intangible assets arising on the acquisition of Cathedral in the fourth quarter of 2013.

The Lloyd's segment in the six months to June 2014 includes $8.0 million of employee remuneration costs and $5.1 million of other operating expenses compared to $13.1 million and $5.3 million respectively for the same period in 2013 (prior to the acquisition by Lancashire). 2013 employee remuneration costs were higher due to profit related pay provisions which are accrued on a results basis.

Equity based compensation was $10.7 million for the six months to 30 June 2014 compared to $7.2 million in the same period last year. The variance is driven by the accelerated vesting of RSS awards in respect of the departing CEO and the inclusion of the Lloyd's segment in the Group's RSS scheme.

Capital

At 30 June 2014, total capital available to Lancashire was $1.836 billion, comprising shareholders' equity of $1.504 billion and $332 million of long-term debt. Tangible capital was $1.678 billion. Leverage was 18.1% on total capital and 19.8% on total tangible capital. Total capital and total tangible capital at 30 June 2013 was $1.525 billion.

Dividends

During the first quarter of 2014, the Lancashire Board of Directors declared a final dividend in respect of 2013 of $0.10 (£0.06) per common share and an additional special dividend for 2013 of $0.20 (£0.12 pence) per common share. The dividends, totaling $63.2 million, were paid on 16 April 2014 to shareholders of record on 21 March 2014.

Lancashire announces that its Board has declared an interim dividend for 2014 of $0.05 per common share (approximately £0.03 per common share at the current exchange rate), which will result in an aggregate payment of approximately $9.5 million. The dividend will be paid in Pounds Sterling on 24 September 2014 (the "Dividend Payment Date") to shareholders of record on 29 August 2014 (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 $1.0 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 (Excellent)	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.

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

Condensed interim consolidated statement of comprehensive income

For the six months ended 30 June 2014

	Notes	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Gross premiums written	2	635.1	423.9	679.7
Outwards reinsurance premiums	2	(140.2)	(116.2)	(122.1)
Net premiums written		**494.9**	**307.7**	**557.6**
Change in unearned premiums	2	(200.8)	(96.8)	24.3
Change in unearned premiums on premiums ceded	2	67.2	49.6	(13.8)
Net premiums earned		**361.3**	**260.5**	**568.1**
Net investment income	3	14.7	12.6	25.4
Net other investment (losses) income	3	(0.9)	3.8	1.4
Net realised (losses) gains and impairments	3	(3.9)	12.1	12.6
Share of profit of associates	10	2.5	6.2	9.2
Other income	15	7.9	0.6	4.1
Net foreign exchange (losses) gains		(3.3)	3.6	21.8
Total net revenue		**378.3**	**299.4**	**642.6**
Insurance losses and loss adjustment expenses	2, 8	125.8	105.7	250.0
Insurance losses and loss adjustment expenses recoverable	2, 8	(1.1)	(44.4)	(61.9)
Net insurance losses		**124.7**	**61.3**	**188.1**
Insurance acquisition expenses	2	74.0	62.5	135.1
Insurance acquisition expenses ceded	2	(1.0)	(4.8)	(9.3)
Other operating expenses	4	57.6	34.3	85.0
Equity based compensation	4, 15	10.7	7.2	16.7
Total expenses		**266.0**	**160.5**	**415.6**
Results of operating activities		**112.3**	**138.9**	**227.0**
Financing costs	5	13.4	1.7	8.9
Profit before tax		**98.9**	**137.2**	**218.1**
Tax (credit) charge	6	(5.8)	3.1	(3.8)
Profit for the period		**104.7**	**134.1**	**221.9**
Profit (loss) for the period attributable to:				
Equity shareholders of LHL		104.9	134.1	222.5
Non-controlling interests		(0.2)	-	(0.6)
Profit for the period		**104.7**	**134.1**	**221.9**
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 7	10.3	(37.4)	(33.3)
Tax (expense) recovery on net change in unrealised gains / losses on investments	6, 7	(0.1)	0.8	0.8
Other comprehensive income (loss)		**10.2**	**(36.6)**	**(32.5)**
Total comprehensive income for the period		**114.9**	**97.5**	**189.4**
Total comprehensive income (loss) attributable to:				
Equity shareholders of LHL		115.1	97.5	190.0
Non-controlling interests		(0.2)	-	(0.6)
Total comprehensive income for the period		**114.9**	**97.5**	**189.4**
Earnings per share				
Basic	14	$0.57	$0.84	$1.31
Diluted	14	$0.53	$0.74	$1.17

Condensed interim consolidated balance sheet

As at 30 June 2014

	Notes	30 Jun 2014 $m	30 Jun 2013 $m	31 Dec 2013 $m
Assets				
Cash and cash equivalents	12	345.4	413.6	403.0
Accrued interest receivable		8.5	7.5	8.9
Investments	7, 12	2,155.7	1,623.0	2,016.0
Reinsurance assets				
- Unearned premiums on premiums ceded		82.1	61.1	14.9
- Reinsurance recoveries	8	123.5	87.2	183.0
- Other receivables		6.9	0.8	10.8
Deferred acquisition costs		123.6	81.2	73.8
Other receivables		28.8	4.2	18.7
Inwards premiums receivable from insureds and cedants		464.5	276.6	288.4
Deferred tax asset	9	-	5.7	-
Corporation tax receivable		4.8	-	5.6
Investment in associates	10	28.3	53.6	64.7
Property, plant and equipment		2.4	2.1	2.8
Intangible assets	11	157.8	-	177.2
Total assets		**3,532.3**	**2,616.6**	**3,267.8**
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	8	831.5	513.8	853.4
- Unearned premiums		642.9	440.1	442.1
- Other payables		39.3	24.8	28.9
Amounts payable to reinsurers		70.5	43.7	30.9
Deferred acquisition costs ceded		0.7	3.9	0.2
Other payables		69.3	64.0	80.7
Deferred tax liability	9	37.4	-	38.7
Interest rate swap		4.0	1.7	0.2
Long-term debt		331.9	258.3	332.3
Total liabilities		**2,027.5**	**1,350.3**	**1,807.4**
Shareholders' equity				
Share capital	13	94.6	84.3	92.7
Own shares	13	(21.2)	(47.3)	(36.8)
Share premium	16	-	2.4	192.2
Contributed surplus	16	837.3	652.6	645.7
Accumulated other comprehensive income	7	13.1	(1.2)	2.9
Other reserves		31.0	51.1	55.2
Retained earnings		549.5	524.4	507.8
Total shareholders' equity attributable to equity shareholders of LHL		**1,504.3**	**1,266.3**	**1,459.7**
Non-controlling interests		0.5	-	0.7
Total shareholders' equity		**1,504.8**	**1,266.3**	**1,460.4**
Total liabilities and shareholders' equity		**3,532.3**	**2,616.6**	**3,267.8**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 23 July 2014 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 2014

	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	Shareholder's equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2012		**84.3**	**(57.1)**	**2.4**	**654.4**	**35.4**	**57.1**	**610.9**	**1,387.4**	**-**	**1,387.4**
Total comprehensive income for the period	7	-	-	-	-	(36.6)	-	134.1	97.5	-	97.5
Distributed by trust	13	-	21.9	-	(27.7)	-	-	-	(5.8)	-	(5.8)
Shares donated to trust	13	-	(12.8)	-	12.8	-	-	-	-	-	-
Dividends on common shares	13	-	-	-	-	-	-	(186.3)	(186.3)	-	(186.3)
Dividend equivalents on warrants	13	-	-	-	-	-	-	(34.3)	(34.3)	-	(34.3)
Warrant exercises - founder	13	-	0.7	-	(0.2)	-	(0.5)	-	-	-	-
Equity based compensation - tax	6, 9	-	-	-	-	-	0.6	-	0.6	-	0.6
Equity based compensation - exercises		-	-	-	13.3	-	(13.3)	-	-	-	-
Equity based compensation - expense	4	-	-	-	-	-	7.2	-	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**	**-**	**1,266.3**
Total comprehensive income for the period	7	-	-	-	-	4.1	-	88.4	92.5	(0.6)	91.9
Issue of shares		8.4	-	189.8	-	-	-	-	198.2	-	198.2
Issue of share to non-controlling interests		-	-	-	-	-	-	-	-	1.3	1.3
Distributed by trust	13	-	8.2	-	(11.0)	-	-	-	(2.8)	-	(2.8)
Dividends on common shares	13	-	-	-	-	-	-	(90.4)	(90.4)	-	(90.4)
Dividend equivalents on warrants	13	-	-	-	-	-	-	(14.6)	(14.6)	-	(14.6)
Warrant exercises - founder	13	-	2.3	-	(0.9)	-	(1.4)	-	-	-	-
Equity based compensation - tax	6, 9	-	-	-	-	-	1.0	-	1.0	-	1.0
Equity based compensation - exercises		-	-	-	5.0	-	(5.0)	-	-	-	-
Equity based compensation - expense	4	-	-	-	-	-	9.5	-	9.5	-	9.5
Balance as at 31 December 2013		**92.7**	**(36.8)**	**192.2**	**645.7**	**2.9**	**55.2**	**507.8**	**1,459.7**	**0.7**	**1,460.4**

Condensed interim consolidated statement of changes in shareholders' equity (continued)

For the six months ended 30 June 2014

	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	Shareholder's equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2013		**92.7**	**(36.8)**	**192.2**	**645.7**	**2.9**	**55.2**	**507.8**	**1,459.7**	**0.7**	**1,460.4**
Total comprehensive income for the period	7	-	-	-	-	10.2	-	104.9	115.1	(0.2)	114.9
Share premium reclassification	16	-	-	(192.2)	192.2	-	-	-	-	-	-
Distributed by trust	13	-	17.9	-	(23.4)	-	-	-	(5.5)	-	(5.5)
Shares donated to trust	13	-	(6.3)	-	6.3	-	-	-	-	-	-
Dividends on common shares	13	-	-	-	-	-	-	(54.6)	(54.6)	-	(54.6)
Dividend equivalents on warrants	13	-	-	-	-	-	-	(8.6)	(8.6)	-	(8.6)
Warrant exercises	13	1.9	4.0	-	13.3	-	(19.2)	-	-	-	-
RSS compensation	15	-	-	-	(9.8)	-	-	-	(9.8)	-	(9.8)
Equity based compensation - tax	6, 9	-	-	-	-	-	(2.7)	-	(2.7)	-	(2.7)
Equity based compensation - exercises		-	-	-	13.0	-	(13.0)	-	-	-	-
Equity based compensation - expense	4, 15	-	-	-	-	-	10.7	-	10.7	-	10.7
Balance as at 30 June 2014		**94.6**	**(21.2)**	-	**837.3**	**13.1**	**31.0**	**549.5**	**1,504.3**	**0.5**	**1,504.8**

Condensed interim statement of consolidated cash flows

For the six months ended 30 June 2014

	Notes	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Cash flows from operating activities				
Profit before tax		98.9	137.2	218.1
Tax paid		1.0	0.4	(0.4)
Depreciation		0.6	0.7	1.4
Amortisation of intangible asset	11	19.4	-	13.2
Interest expense on long-term debt	5	7.8	6.2	13.2
Interest and dividend income		(21.9)	(22.5)	(43.9)
Net amortisation of fixed income securities		4.9	6.7	12.9
Equity based compensation	4	10.7	7.2	16.7
Foreign exchange losses (gains)		7.8	(1.8)	(11.8)
Share of profit of associates	10	(2.5)	(6.2)	(9.2)
Net other investment losses (income)	3	0.9	(3.8)	(1.4)
Net realised losses (gains) and impairments	3	3.9	(12.1)	(12.6)
Net unrealised losses (gains) on interest rate swaps		3.9	(6.3)	(7.8)
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		(7.8)	(40.3)	(26.1)
- Other assets and liabilities		(29.9)	12.1	5.4
Net cash flows from operating activities		**97.7**	**77.5**	**167.7**
Cash flows (used in) from investing activities				
Interest, dividends and other income received		27.9	25.6	44.4
Net purchase of property, plant and equipment		(0.3)	-	(0.1)
Investment in associates	15	38.8	34.7	26.6
Acquisition of subsidiaries, net of cash acquired		-	-	(227.2)
Purchase of investments		(1,215.4)	(610.0)	(1,277.9)
Proceeds on sale of investments		1,077.0	833.1	1,521.2
Net cash flows (used in) from investing activities		**(72.0)**	**283.4**	**87.0**
Cash flows used in financing activities				
Interest paid		(7.8)	(6.1)	(12.0)
Proceeds from issue of shares, net of share issue costs		-	-	198.2
Dividends paid	13	(63.2)	(220.6)	(325.6)
RSS compensation	15	(9.8)	-	-
Distributions by trust		(5.5)	(5.9)	(8.6)
Issue of shares to non-controlling interests		-	-	1.3
Net cash flows used in financing activities		**(86.3)**	**(232.6)**	**(146.7)**
Net (decrease) increase in cash and cash equivalents		**(60.6)**	**128.3**	**108.0**
Cash and cash equivalents at beginning of period		403.0	295.8	295.8
Effect of exchange rate fluctuations on cash and cash equivalents		3.0	(10.5)	(0.8)
Cash and cash equivalents at end of period		**345.4**	**413.6**	**403.0**

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 2014. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective 1 January 2014.

IFRS 10, Consolidated Financial Statements, issued in May 2011, redefines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements. IFRS 12, Disclosure of Involvement with Other Entities, was issued concurrently and sets out the disclosure requirements for consolidated financial statements. Both standards are effective from 1 January 2014 and did not have a material impact on the Group's results or disclosure requirements.

Several other new standards and amendments apply for the first time in 2014. 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 unaudited 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 audited 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:

	2013		2012	
	$m	**%**	**$m**	**%**
January to June	423.9	62.4	514.8	71.1
July to December	255.8	37.6	209.5	28.9
Total	**679.7**	**100.0**	**724.3**	**100.0**

Gross premiums written for the six months ending 30 June 2014 were $635.1 million. The increase in January to June 2014 gross premiums written compared to the same period for 2013 and 2012 includes $190.2 million in relation to the Lloyd's segment, following the acquisition of Cathedral on 7 November 2013. The increase does not therefore represent a significant change in the timing of business written.

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

		30 Jun 2014		30 Jun 2013		31 Dec 2013	
Zones	**Perils**	**$m**	**% of tangible capital**	**$m**	**% of tangible capital**	**$m**	**% of tangible capital**
		100 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	269.8	16.1	235.8	15.5	307.6	19.0
California	Earthquake	147.6	8.8	69.2	4.5	130.6	8.1
Pan-European	Windstorm	139.1	8.3	142.1	9.3	210.7	13.0
Japan	Earthquake	115.2	6.9	126.8	8.3	154.8	9.6
Japan	Typhoon	62.0	3.7	101.9	6.7	132.9	8.2
Pacific North West	Earthquake	45.5	2.7	25.3	1.7	49.4	3.1

[1] Landing hurricane from Florida to Texas.

		30 Jun 2014		30 Jun 2013		31 Dec 2013	
Zones	**Perils**	**$m**	**% of tangible capital**	**$m**	**% of tangible capital**	**$m**	**% of tangible capital**
		250 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	408.2	24.3	354.2	23.2	440.2	27.3
California	Earthquake	238.3	14.2	177.3	11.6	239.0	14.8
Pan-European	Windstorm	216.2	12.9	198.0	13.0	319.3	19.8
Japan	Earthquake	189.5	11.3	238.0	15.6	266.9	16.5
Japan	Typhoon	88.7	5.3	238.1	15.6	249.0	15.4
Pacific North West	Earthquake	135.1	8.0	109.0	7.1	176.4	10.9

[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 108 to 133 in the Group's Annual Report and Accounts for the year ended 31 December 2013. 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 with operations in the United Kingdom, Bermuda and Canada. 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 registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. LHL's head office is at Level 11, Vitro, 60 Fenchurch Street, London, EC3M 4AD, United Kingdom.

2. Segmental reporting

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. These segments are therefore deemed to be the Group's operating segments for the purposes of 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 112 to 115 of the Group's Annual Report and Accounts for the year ended 31 December 2013. 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 2014

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Lloyd's**	**Total**
(Analysed by geographical region)						
Worldwide offshore	0.1	160.9	47.8	0.1	-	208.9
U.S. and Canada	79.3	11.8	-	-	83.7	174.8
Worldwide, including the U.S. and Canada [(1)]	23.5	3.1	0.1	31.6	48.5	106.8
Europe	27.9	0.2	-	-	18.3	46.4
Far East	23.4	(0.1)	-	-	6.6	29.9
Worldwide, excluding the U.S. and Canada [(2)]	9.3	-	-	-	6.2	15.5
Middle East	3.9	0.6	-	-	1.0	5.5
Rest of world	20.0	0.7	0.7	-	25.9	47.3
Total	**187.4**	**177.2**	**48.6**	**31.7**	**190.2**	**635.1**
Outwards reinsurance premiums	(33.6)	(41.2)	(9.5)	(6.4)	(49.5)	(140.2)
Change in unearned premiums	(57.3)	(65.6)	(15.8)	(4.5)	(57.6)	(200.8)
Change in unearned premiums ceded	19.2	17.5	4.7	4.4	21.4	67.2
Net premiums earned	**115.7**	**87.9**	**28.0**	**25.2**	**104.5**	**361.3**
Insurance losses and loss adjustment expenses	11.4	(51.4)	(25.7)	(17.9)	(42.2)	(125.8)
Insurance losses and loss adjustment expenses recoverable	(6.3)	13.5	-	-	(6.1)	1.1
Insurance acquisition expenses	(11.7)	(24.7)	(9.3)	(5.1)	(23.2)	(74.0)
Insurance acquisition expenses ceded	0.4	0.3	0.2	-	0.1	1.0
Net underwriting profit	**109.5**	**25.6**	**(6.8)**	**2.2**	**33.1**	**163.6**
Net unallocated income and expenses						(64.7)
Profit before tax						**98.9**
Net loss ratio	(4.4%)	43.1%	91.8%	71.0%	46.2%	34.5%
Net acquisition cost ratio	9.8%	27.8%	32.5%	20.2%	22.1%	20.2%
Expense ratio	-	-	-	-	-	15.9%
Combined ratio	**5.4%**	**70.9%**	**124.3%**	**91.2%**	**68.3%**	**70.6%**

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

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
U.S. and Canada	53.9	6.2	-	-	60.1
Worldwide, including the U.S. and Canada [1]	68.5	4.2	0.8	19.6	93.1
Europe	21.0	-	-	-	21.0
Far East	33.1	0.2	-	-	33.3
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 year ended 31 December 2013

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Lloyd's**	**Total**
(Analysed by geographical region)						
Worldwide offshore	-	191.9	61.3	0.1	-	253.3
U.S. and Canada	84.9	6.5	-	-	10.1	101.5
Worldwide, including the U.S. and Canada (1)	85.4	7.2	0.9	48.8	8.7	151.0
Europe	36.4	0.4	0.1	-	1.5	38.4
Far East	39.1	0.3	-	-	0.5	39.9
Worldwide, excluding the U.S. and Canada (2)	18.7	0.4	-	-	0.3	19.4
Middle East	16.5	0.2	-	-	-	16.7
Rest of world	52.4	3.0	0.7	-	3.4	59.5
Total	**333.4**	**209.9**	**63.0**	**48.9**	**24.5**	**679.7**
Outwards reinsurance premiums	(66.9)	(38.5)	(11.2)	(3.8)	(1.7)	(122.1)
Change in unearned premiums	(39.9)	27.8	9.9	(0.4)	26.9	24.3
Change in unearned premiums ceded	(7.8)	3.9	-	-	(9.9)	(13.8)
Net premiums earned	**218.8**	**203.1**	**61.7**	**44.7**	**39.8**	**568.1**
Insurance losses and loss adjustment expenses	(47.1)	(63.2)	(99.2)	(20.0)	(20.5)	(250.0)
Insurance losses and loss adjustment expenses recoverable	16.9	9.3	34.2	-	1.5	61.9
Insurance acquisition expenses	(37.8)	(56.9)	(21.7)	(10.1)	(8.6)	(135.1)
Insurance acquisition expenses ceded	8.4	0.7	0.2	-	-	9.3
Net underwriting profit	**159.2**	**93.0**	**(24.8)**	**14.6**	**12.2**	**254.2**
Net unallocated income and expenses						(36.1)
Profit before tax						**218.1**
Net loss ratio	13.8%	26.5%	105.3%	44.7%	47.7%	33.1%
Net acquisition cost ratio	13.4%	27.7%	34.8%	22.6%	21.6%	22.1%
Expense ratio	-	-	-	-	-	15.0%
Combined ratio	**27.2%**	**54.2%**	**140.1%**	**67.3%**	**69.3%**	**70.2%**

(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.

3. Investment return

The total investment return for the Group is as follows:

For the six months ended 30 June 2014	$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, AFS	14.2	-	9.7	23.9	1.2	25.1
Fixed income securities, at FVTPL	1.1	-	-	1.1	-	1.1
Equity securities, AFS	0.3	-	0.6	0.9	-	0.9
Hedge Funds, at FVTPL	1.0	-	-	1.0	-	1.0
Other investments	(3.0)	(3.9)	-	(6.9)	(0.7)	(7.6)
Cash and cash equivalents	0.2	-	-	0.2	(0.2)	-
Total investment return	**13.8**	**(3.9)**	**10.3**	**20.2**	**0.3**	**20.5**

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, AFS	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 year ended 31 December 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, AFS	24.5	7.6	(33.8)	(1.7)	(3.1)	(4.8)
Fixed income securities, at FVTPL	(0.4)	-	-	(0.4)	-	(0.4)
Equity securities, AFS	0.1	-	0.5	0.6	-	0.6
Other investments	1.8	5.0	-	6.8	2.6	9.4
Cash and cash equivalents	0.8	-	-	0.8	(0.1)	0.7
Total investment return	**26.8**	**12.6**	**(33.3)**	**6.1**	**(0.6)**	**5.5**

For all reporting periods there were no impairment losses on fixed income and equity securities held by the Group. 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 $2.3 million (30 June 2013 - $3.3 million; 31 December 2013 - $5.5 million) of investment management, accounting and custodian fees.

4. Employee benefits

	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Wages and salaries	14.3	9.5	19.8
Pension costs	1.7	0.8	1.8
Bonus and other benefits	10.2	8.5	21.1
Total cash compensation	**26.2**	**18.8**	**42.7**
RSS - ordinary	6.3	5.8	13.9
RSS - bonus deferral	2.0	1.4	2.8
RSS - Cathedral acquisition	2.4	-	-
Total equity based compensation	**10.7**	**7.2**	16.7
Total employee benefits	**36.9**	**26.0**	**59.4**

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.

Management team ordinary warrants

Ordinary warrants granted and outstanding are:

	Number	Weighted average exercise price
As at 31 December 2013, 30 June 2013 and 31 December 2012	**6,184,399**	**$4.64**
Exercised	(5,625,217)	$4.63
As at 30 June 2014	**559,182**	**$4.72**

	30 Jun 2014	30 Jun 2013	31 Dec 2013
Weighted average remaining contractual life	1.5 years	2.5 years	2.0 years
Weighted average share price at date of exercise during the year	$10.95	-	-

Management team performance warrants

Performance warrants granted and outstanding are:

	Number	Weighted average exercise price
As at 31 December 2013, 30 June 2013 and 31 December 2012	**859,445**	**$3.62**
Exercised	(741,965)	$3.62
As at 30 June 2014	**117,480**	**$3.62**

	30 Jun 2014	30 Jun 2013	31 Dec 2013
Weighted average remaining contractual life	1.5 years	2.5 years	2.0 years
Weighted average share price at date of exercise during the year	$10.99	-	-

5. Financing costs

	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Interest expense on long-term debt	7.8	6.2	13.2
Net losses (gains) on interest rate swap	5.2	(5.0)	(5.2)
Other financing costs	0.4	0.5	0.9
Total	**13.4**	**1.7**	**8.9**

Refer to note 12 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 (credit) charge	**Six months 2014 $m**	**Six months 2013 $m**	**Twelve months 2013 $m**
Corporation tax (credit) charge for the period	1.0	1.8	(2.6)
Adjustments in respect of prior period corporation tax	-	-	(1.1)
Deferred tax (credit) charge for the period	(6.4)	-	3.8
Tax rate change adjustment	(0.4)	1.3	(2.9)
Adjustments in respect of prior period deferred tax	-	-	(1.0)
Total tax (credit) charge	**(5.8)**	**3.1**	**(3.8)**

Tax reconciliation	**Six months 2014 $m**	**Six months 2013 $m**	**Twelve months 3 $m**
Profit before tax	98.9	137.2	218.1
UK corporation tax at 21.5% (23.25%, 23.25%)	21.3	31.9	50.7
Non-taxable income	(25.9)	(30.3)	(51.0)
Adjustments in respect of prior period	-	-	(2.1)
Differences related to equity based compensation	(10.0)	(0.7)	0.1
Other expense permanent differences	0.3	1.3	1.4
Tax rate change adjustment	(0.4)	-	(2.9)
Unused tax losses not recognised for deferred tax	8.9	0.9	-
Total tax (credit) charge	**(5.8)**	**3.1**	**(3.8)**

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 negative 5.8 per cent (30 June 2013 - 2.3 per cent; 31 December 2013 - negative 1.7 per cent).

A corporation tax credit of $1.1 million (30 June 2013 - $0.9 million; 31 December 2013 - $1.1 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.

The UK corporation tax rate as at 30 June 2014 was 21.0 per cent (effective from 1 April 2014). Until 1 April 2014 the UK corporation tax rate of 23.0 per cent applied. On 17 July 2013 reductions to 20.0 per cent from 1 April 2015 were enacted. This rate has been reflected in the closing deferred tax position on the balance sheet.

7. Investments

As at 30 June 2014	**$m**	**$m**	**$m**	**$m**
	Cost or amortised cost	**Gross unrealised gain**	**Gross unrealised loss**	**Estimated fair value**
Fixed income securities, AFS				
- Short-term investments	158.1	0.1	-	158.2
- Fixed income funds	21.2	0.5	(0.8)	20.9
- U.S. treasuries	370.1	0.7	(0.7)	370.1
- Other government bonds	100.3	1.0	(1.0)	100.3
- U.S. municipal bonds	20.0	0.5	-	20.5
- U.S. government agency debt	42.3	0.2	-	42.5
- Asset backed securities	168.6	0.7	(0.1)	169.2
- U.S. government agency mortgage backed securities	214.9	4.1	(1.4)	217.6
- Non-agency mortgage backed securities	30.0	0.8	(0.1)	30.7
- Agency commercial mortgage backed securities	5.5	0.1	-	5.6
- Non-agency commercial mortgage backed securities	46.2	1.1	-	47.3
- Bank loans	140.5	0.5	(0.3)	140.7
- Corporate bonds	686.7	6.7	(0.4)	693.0
Total fixed income securities, AFS	**2,004.4**	**17.0**	**(4.8)**	**2,016.6**
- Fixed income securities, at FVTPL	30.0	0.7	-	30.7
- Equity securities, AFS	16.1	2.0	(0.9)	17.2
- Hedge funds, at FVTPL	88.5	1.0	-	89.5
- Other investments	2.8	0.9	(2.0)	1.7
Total investments	**2,141.8**	**21.6**	**(7.7)**	**2,155.7**

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, AFS	**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 31 December 2013	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities, AFS				
- Short-term investments	231.0	0.1	(0.1)	231.0
- Fixed income funds	26.4	0.4	(0.5)	26.3
- U.S. treasuries	218.5	0.1	(1.3)	217.3
- Other government bonds	111.1	0.8	(4.0)	107.9
- U.S. municipal bonds	21.3	0.3	(0.2)	21.4
- U.S. government agency debt	99.0	-	(0.8)	98.2
- Asset backed securities	150.4	1.1	(0.1)	151.4
- U.S. government agency mortgage backed securities	252.5	3.5	(4.0)	252.0
- Non-agency mortgage backed securities	8.7	0.1	-	8.8
- Agency commercial mortgage backed securities	4.1	0.1	-	4.2
- Non-agency commercial mortgage backed securities	36.9	1.0	-	37.9
- Bank loans	107.3	0.6	(0.1)	107.8
- Corporate bonds	698.0	6.0	(2.1)	701.9
Total fixed income securities, AFS	**1,965.2**	**14.1**	**(13.2)**	**1,966.1**
- Fixed income securities, at FVTPL	30.0	-	(0.4)	29.6
- Equity securities, AFS	15.1	0.8	(0.3)	15.6
- Other investments	2.6	3.5	(1.4)	4.7
Total investments	**2,012.9**	**18.4**	**(15.3)**	**2,016.0**

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 2014 $m	30 Jun 2013 $m	31 Dec 2013 $m
Gross unrealised gains	19.0	13.5	14.9
Gross unrealised losses	(5.7)	(18.4)	(13.5)
Net foreign exchange losses	0.2	4.0	1.8
Tax provision	(0.4)	(0.3)	(0.3)
Accumulated other comprehensive income	**13.1**	**(1.2)**	**2.9**

Refer to note 12 for details of the investment balances in trusts in favour of ceding companies and on deposit as collateral.

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

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

Level (ii)
Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or 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. The Group classifies hedge funds as Level (iii) assets as the valuation technique incorporates both observable and unobservable inputs.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole. There were no transfers between levels of the fair value hierarchy during the reporting periods.

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

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 2014 and 30 June 2013 and the year ended 31 December 2013.

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

As at 30 June 2014	$m	$m	$m	$m
	Level (i)	Level (ii)	Level (iii)	Total
Fixed income securities, AFS				
- Short-term investments	116.5	41.7	-	158.2
- Fixed income funds	-	20.9	-	20.9
- U.S. treasuries	370.1	-	-	370.1
- Other government bonds	-	100.3	-	100.3
- U.S. municipal bonds	-	20.5	-	20.5
- U.S. government agency debt	-	42.5	-	42.5
- Asset backed securities	-	169.2	-	169.2
- U.S. government agency mortgage backed securities	-	217.6	-	217.6
- Non-agency mortgage backed securities	-	30.7	-	30.7
- Agency commercial mortgage backed securities	-	5.6	-	5.6
- Non-agency commercial mortgage backed securities	-	47.3	-	47.3
- Bank loans	-	140.7	-	140.7
- Corporate bonds	-	693.0	-	693.0
Total fixed income securities, AFS	**486.6**	**1,530.0**	**-**	**2,016.6**
- Fixed income securities, at FVTPL	-	30.7	-	30.7
- Equity securities, AFS	17.2	-	-	17.2
- Hedge funds, at FVTPL	-	-	89.5	89.5
- Other investments	-	1.7	-	1.7
Total investments	**503.8**	**1,562.4**	**89.5**	**2,155.7**

As at 30 June 2013	$m	$m	$m	$m
	Level (i)	Level (ii)	Level (iii)	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, AFS	**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 31 December 2013	$m Level (i)	$m Level (ii)	$m Level (iii)	$m Total
Fixed income securities, AFS				
- Short-term investments	153.5	77.5	-	231.0
- Fixed income funds	-	26.3	-	26.3
- U.S. treasuries	217.3	-	-	217.3
- Other government bonds	-	107.9	-	107.9
- U.S. municipal bonds	-	21.4	-	21.4
- U.S. government agency debt	-	98.2	-	98.2
- Asset backed securities	-	151.4	-	151.4
- U.S. government agency mortgage backed securities	-	252.0	-	252.0
- Non-agency mortgage backed securities	-	8.8	-	8.8
- Agency commercial mortgage backed securities	-	4.2	-	4.2
- Non-agency commercial mortgage backed securities	-	37.9	-	37.9
- Bank loans	-	107.8	-	107.8
- Corporate bonds	-	701.9	-	701.9
Total fixed income securities, AFS	**370.8**	**1,595.3**	**-**	**1,966.1**
- Fixed income securities, at FVTPL	-	29.6	-	29.6
- Equity securities, AFS	15.6	-	-	15.6
- Other investments	-	4.7	-	4.7
Total investments	**386.4**	**1,629.6**	**-**	**2,016.0**

The table below analyses the movements in assets classified as Level (iii) investments during the six months ended 30 June 2014:

	Hedge Funds $m
As at 31 December 2013	**-**
Purchases	88.5
Total net gains/(losses) recognised in other investment income in profit or loss	1.0
As at 30 June 2014	**89.5**

During the six months ended 30 June 2014 the Group recognised $1.0 million of unrealised gains in other investment income in profit or loss for Level (iii) investments held at the reporting date. During the six months ended 30 June 2013 and the year ended 31 December 2013, the Group did not hold any level (iii) investments.

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 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**
Assumed in the Cathedral acquisition	**331.5**	**(107.3)**	**224.2**
Net incurred losses for:			
Prior years	4.8	(13.4)	(8.6)
Current year	139.5	(4.1)	135.4
Exchange adjustments	-	(0.7)	(0.7)
Incurred losses and loss adjustment expenses	**144.3**	**(18.2)**	**126.1**
Net paid losses for:			
Prior years	99.9	(29.6)	70.3
Current year	36.3	(0.1)	36.2
Paid losses and loss adjustment expenses	**136.2**	**(29.7)**	**106.5**
As at 31 December 2013	**853.4**	**(183.0)**	**670.4**
Net incurred losses for:			
Prior years	(2.8)	4.7	1.9
Current year	128.6	(5.8)	122.8
Exchange adjustments	8.9	(0.5)	8.4
Incurred losses and loss adjustment expenses	**134.7**	**(1.6)**	**133.1**
Net paid losses for:			
Prior years	149.9	(61.1)	88.8
Current year	6.7	-	6.7
Paid losses and loss adjustment expenses	**156.6**	**(61.1)**	**95.5**
As at 30 June 2014	**831.5**	**(123.5)**	**708.0**

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 $166.3 million (30 June 2013 - $102.8 million; 31 December 2013 - $170.7 million) increase in gross 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 2014		30 Jun 2013		31 Dec 2013	
	$m	%	$m	%	$m	%
Outstanding losses	448.2	53.9	273.0	53.1	501.1	58.7
Additional case reserves	155.4	18.7	93.7	18.3	115.0	13.5
Losses incurred but not reported	227.9	27.4	147.1	28.6	237.3	27.8
Total	**831.5**	**100.0**	**513.8**	**100.0**	**853.4**	**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 2014 $m	30 Jun 2013 $m	31 Dec 2013 $m
2006 accident year and prior	0.2	(1.4)	(0.7)
2007 accident year	(0.3)	(0.8)	(0.9)
2008 accident year	2.2	(1.5)	(4.1)
2009 accident year	2.5	1.4	2.0
2010 accident year	4.0	0.1	1.4
2011 accident year	(3.6)	7.1	(4.1)
2012 accident year	1.3	2.4	22.3
2013 accident year	(8.2)	-	-
Total (unfavourable) favourable development	**(1.9)**	**7.3**	**15.9**

The unfavourable prior year development in 2014 arose primarily from development on prior accident year mid-sized marine and energy claims somewhat offset by favourable development on other claims and IBNR releases. 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 on the Costa Concordia marine loss.

9. Deferred tax

	30 Jun 2014 $m	30 Jun 2013 $m	31 Dec 2013 $m
Equity based compensation	3.0	8.4	8.5
Claims equalisation reserves	(17.7)	(2.7)	(16.7)
Syndicate underwriting profits	(10.0)	-	(11.2)
Syndicate participation rights	(16.1)	-	(16.4)
Other temporary differences	(1.9)	-	(5.1)
Tax losses carried forward	5.3	-	2.2
Net deferred tax (liability) asset	**(37.4)**	**5.7**	**(38.7)**

A deferred tax debit of $3.8 million (30 June 2013 - $0.3 million debit; 31 December 2013 - $0.5 million credit) was recognised in other reserves which relates to temporary differences in respect of 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 2014 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, as at present, the related tax benefit is not expected to be realised through future taxable profits.

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

10. Investment in associates

KHL

The Group holds a 10.0 per cent interest in the common shares of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised as a Special Purpose Insurer by the BMA. KRL is a market facing vehicle underwriting collateralised reinsurance products. KRL commenced writing insurance business on 1 January 2014. As at 30 June 2014 the carrying value of the Group's investment in KHL was $28.3 million (30 June 2013 - $nil; 31 December 2013 - $20.1 million). The Group's share of comprehensive income for KHL for the period was $1.5 million (30 June 2013 - $nil; 31 December 2013 - $nil). Key financial information for KHL is as follows:

	30 Jun 2014 $m	30 Jun 2013 [(1)] $m	31 Dec 2013 [(1)] $m
Assets	339.7	-	201.2
Liabilities	56.2	-	-
Shareholders' equity	283.5	-	201.2
Gross premiums earned	17.8	-	-
Comprehensive income	14.7	-	-

(1) From the date of incorporation, 4 June 2013

Refer to note 15 for details of transactions between the Group, KHL and KRL.

During the six months ended 30 June 2014 AHL, ARL, SHL and SRL were placed in member's voluntary liquidation. As at 30 June 2014 remaining assets and liabilities in AHL, ARL, SHL and SRL are negligible. As at 30 June 2014 the carrying value of the Group's investment in AHL is $nil (30 June 2013 - $42.6 million; 31 December 2013 - $32.4 million). As at 30 June 2014 the carrying value of the Group's investment in SHL is $nil (30 June 2013 - $11.0 million; 31 December 2013 - $12.2 million). The Group's share of comprehensive income for AHL for the period was $1.0 million (30 June 2013 - $4.8 million; 31 December 2013 - $6.6 million). The Group's share of comprehensive income for SHL for the period was $nil (30 June 2013 - $1.4 million; 31 December 2013 - $2.6 million).

See note 15 for details of transactions between the Group, AHL, ARL, SHL and SRL.

11. Intangible assets

	Value of in-force business $m	Syndicate participation rights $m	Goodwill $m	Total $m
Net book value at 1 January 2013 and 30 June 2013	-	-	-	-
Acquired in the Cathedral acquisition	36.6	82.6	71.2	190.4
Amortisation charge for the period through insurance acquisition expenses	(8.5)	-	-	(8.5)
Amortisation charge for the period through other operating expenses	(4.7)	-	-	(4.7)
Net book value at 31 December 2013	**23.4**	**82.6**	**71.2**	**177.2**
Amortisation charge for the period through insurance acquisition expenses	(12.5)	-	-	(12.5)
Amortisation charge for the period through other operating expenses	(6.9)	-	-	(6.9)
Net book value at 30 June 2014	**4.0**	**82.6**	**71.2**	**157.8**

12. 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 have the following facilities in place as of 30 June 2014:

(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 2014; 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 LHL subordinated loan notes 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 2014 $m	30 Jun 2013 $m	31 Dec 2013 $m
Issued to third parties	23.1	20.3	20.1

LOCs are required to be fully collateralised.

Syndicate bank facilities

As at 30 June 2014, Syndicate 2010 had in place an $80.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $50.0 million can be utilised by way of an LOC to assist Syndicate 2010's gross funding requirements.

As at 30 June 2014, Syndicate 3010 had in place a $20.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 3010. Up to $10.0 million can be utilised by way of an LOC to assist gross funding requirements of Syndicate 3010.

There are no balances outstanding under either of the syndicate bank facilities as at 30 June 2014. The syndicate bank facilities are not available to the Group other than through its participation on the syndicates it supports.

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 at 30 June 2014, LICL had been granted authorised or trusteed reinsurer status in all 50 States. 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 with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacity of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See note 17 for more information regarding FAL requirements.

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

As at 30 June 2014	**$m**	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**	**Equity securities**
FAL	4.2	171.6	16.5
Syndicate accounts	8.9	102.8	-
In various other trust accounts for policyholders	14.8	18.0	-
MBRT accounts	-	26.5	-
In favour of LOCs	0.4	20.0	-
In favour of derivative contracts	0.2	11.6	-
Total	**28.5**	**350.5**	**16.5**

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

As at 31 December 2013	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
FAL	11.1	159.7
Syndicate accounts	16.9	218.2
In various other trust accounts for policyholders	3.8	9.7
MBRT accounts	1.0	20.0
In favour of LOCs	6.3	20.0
In favour of derivative contracts	0.7	0.8
Total	**39.8**	**428.4**

13. Share capital

Authorised ordinary shares of $0.50 each	Number	$m
As at 31 December 2013 and 2012 and 30 June 2014 and 2013	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
As at 31 December 2012 and 30 June 2013	**168,602,427**	**84.3**
Shares issued	16,843,382	8.4
As at 31 December 2013	**185,445,809**	**92.7**
Shares issued	3,837,579	1.9
As at 30 June 2014	**189,283,388**	**94.6**

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
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**
Shares distributed	(334,359)	(2.3)	(612,170)	(8.2)	(946,529)	(10.5)
As at 31 December 2013	**3,513,325**	**24.6**	**906,339**	**12.2**	**4,419,664**	**36.8**
Shares distributed	(544,426)	(4.0)	(1,348,381)	(17.9)	(1,892,807)	(21.9)
Shares donated to trust	(1,060,811)	(7.7)	1,060,811	14.0	-	6.3
As at 30 June 2014	**1,908,088**	**12.9**	**618,769**	**8.3**	**2,526,857**	**21.2**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2014 was 187,375,300 (30 June 2013 - 164,754,743; 31 December 2013 - 181,932,484).

Share repurchases

At the AGM held on 30 April 2014 the Group's shareholders approved a renewal of the Repurchase Programme (the "Repurchase Programme") authorising the repurchase of a maximum of 18,544,580 shares, with such authority to expire on the conclusion of the 2015 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, during all reporting periods, in accordance with the terms of that trust and distributed 1,348,341 shares (30 June 2013 - 1,664,115; 31 December 2013 - 2,276,285). 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	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	10.5
Special	$0.45	29 Nov 2013	20 Dec 2013	94.5
Final	$0.10	21 Mar 2014	16 April 2014	21.1
Special	$0.20	21 Mar 2014	16 April 2014	42.1

14. Earnings per share

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

	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Profit for the period attributable to equity shareholders	104.9	134.1	222.5

	Number of shares	Number of shares	Number of shares
Basic weighted average number of shares	182,562,082	159,420,916	169,270,681
Dilutive effect of RSS	1,781,445	3,284,420	3,431,739
Dilutive effect of warrants	12,524,552	18,261,979	17,788,368
Diluted weighted average number of shares	**196,868,079**	**180,967,315**	**190,490,788**

Earnings per share	Six months 2014	Six months 2013	Twelve months 2013
Basic	$0.57	$0.84	$1.31
Diluted	$0.53	$0.74	$1.17

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.

15. Related party disclosures

Key management compensation

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

	Six months 2014 $m	Six months 2013 $m	Twelve months 2013 $m
Short-term compensation	3.2	2.9	8.1
Equity based compensation	5.6	2.8	6.7
Directors' fees and expenses	1.2	1.0	2.1
Total	**10.0**	**6.7**	**16.9**

The table above includes short-term compensation of $1.8 million and an equity based compensation charge of $3.5 million relating to the retirement of Richard Brindle, the Group's former CEO. His retirement package also included a cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that had accrued on the RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within shareholders' equity.

The Directors' fees and expenses includes $0.2 million (30 June 2013 - $0.2 million; 31 December 2013 - $0.4 million) paid to significant shareholders.

Transactions with associates

During the first half of 2014, AHL returned $33.4 million of capital to the Group and ARL paid a final profit commission to the Group in the amount of $6.7 million following a commutation of the Group's quota share agreement with ARL.

During the first half of 2014, SHL returned $12.1 million of capital to the Group and SRL paid a final profit commission to the Group in the amount of $3.0 million and was placed in to run-off.

During the first half of 2014, the Group committed an additional $6.7 million of capital to KHL.

In 2013 KCML entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the period ended 30 June 2014 the Group recognised $1.4 million (30 June 2013 - $nil; 31 December 2013 - $nil) of service fees in other income in relation to this agreement. Contingent profit commission may be payable to KCML depending on the ultimate performance of KRL.

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

16. Non-cash transactions

On 25 June 2014, following shareholder approval on 30 April 2014, LHL transferred $192.2 million from share premium to contributed surplus.

17. Statutory requirements and dividend restrictions

Annual statutory capital and surplus reported to regulatory authorities by LICL and LUK was as follows:

As at 31 December 2013	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,210.2	118.9
Minimum required statutory capital and surplus	235.5	23.9

Interim unaudited statutory capital and surplus was as follows:

As at 30 June 2014	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,205.6	117.5
Minimum required statutory capital and surplus	159.7	27.4

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

The Group has sufficient capital to meet its FAL requirements of £115.1 million as at 30 June 2014 (30 June 2013 - £nil; 31 December 2013 - £115.1 million)

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

18. Subsequent events

Dividend

On 23 July 2014 the Board of Directors declared the payment of an interim ordinary dividend of $0.05 cents per common share (approximately £0.03 pence per common share) to shareholders of record on 29 August 2014, with a settlement date of 24 September 2014. The total dividend payable, including dividend equivalents, will be approximately $10.5 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 2014 which comprises the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows, the risk and other disclosures, and the related explanatory notes 1 to 18. 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.

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.

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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 2014 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

23 July 2014

Additional case reserves
Additional reserves deemed necessary by management

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

AFS
Available for sale

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

Cathedral
Refers to CCL and all direct and indirect subsidiaries of CCL

CCL
Cathedral Capital Limited

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

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

FAL
Funds at Lloyd's

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

FVTPL
Fair value through profit or loss

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

The Group
LHL and its subsidiaries

IFRS
International Financial Reporting Standard(s)

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

Industry Loss Warranty (ILW)
A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses.

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

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

IRR
Internal rate of return

KCML
Kinesis Capital Management Limited

KHL
Kinesis Holdings I Limited

KRL
Kinesis Reinsurance I Limited

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

Lancashire, Lancashire Companies
Refers to the Group excluding Cathedral

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

NAV
Net asset value

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

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

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

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

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 SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP'S FINANCIAL POSITION, 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 MAY 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 PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN ITS 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; THE EFFECTIVENESS OF ITS 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; CYCLICAL DOWNTURNS 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 ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF LANCASHIRE'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 NEW UK CFC REGIME; AND ANY CHANGE IN THE UK GOVERNMENT OR UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME .

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