lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2015

Financial highlights

	30 Jun 2015	30 Jun 2014	31 Dec 2014
Fully converted book value per share	$6.66	$7.67	$6.96
Return on equity excluding warrant exercises - ytd	6.6%	7.1%	14.7%
Return on equity - ytd	4.5%	6.4%	13.9%
Return on tangible equity - ytd	4.6%	8.4%	17.1%
Operating return on average equity - ytd	6.4%	7.0%	14.8%

	Six months ended 30 Jun 2015	Six months ended 30 Jun 2014	Twelve months ended 31 Dec 2014
Highlights ($m)			
Gross premiums written	423.6	635.1	907.6
Net premiums written	284.3	494.9	742.8
Profit before tax	88.6	98.9	226.5
Profit after tax*	92.6	104.9	229.3
Comprehensive income*	94.5	115.1	227.2
Net operating profit*	90.5	106.3	231.9
Per share data			
Diluted earnings per share	$0.47	$0.53	$1.16
Diluted earnings per share - operating	$0.46	$0.54	$1.17
Financial ratios			
Total investment return including internal currency hedging	1.0%	0.8%	1.0%
Total investment return excluding internal currency hedging	0.8%	0.9%	0.7%
Net loss ratio	32.0%	34.5%	31.7%
Combined ratio	75.1%	70.6%	68.7%
Accident year loss ratio	52.2%	34.0%	35.9%

* These amount are attributable to Lancashire and exclude non-controlling interests.

Dividends

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	21 Mar 2014	16 Apr 2014	21.1
Special	$0.20	21 Mar 2014	16 Apr 2014	42.1
Interim	$0.05	29 Aug 2014	24 Sep 2014	10.4
Special	$1.20	28 Nov 2014	19 Dec 2014	247.4
Final	$0.10	20 Mar 2015	15 Apr 2015	19.8
Special	$0.50	20 Mar 2015	15 Apr 2015	99.2

Alex Maloney, Group Chief Executive Officer, commented:

With relatively benign loss experience and no significant insured catastrophe activity, I am pleased with our first half performance in the context of a difficult market environment, with pricing under pressure across almost all lines of business. While we have seen some signs of a floor being reached in catastrophe bond and ILW pricing and evidence of the brakes being applied to premium reductions in natural catastrophe markets, indiscipline in the specialty markets continues.

We have maintained our reinsurance expenditure at last year's levels and this has enabled us to buy significantly more coverage, with expanded limits, terms and conditions and even new coverage such as protection for our Gulf of Mexico energy wind exposures and treaty protection for our political risk portfolio. We always talk about managing the cycle and that's just what we're doing, bringing exposures down and taking tail volatility out of the portfolio as the risk/reward balance deteriorates. So it's not all one-way traffic but there's no hiding the fact that this is a difficult market and we have to work hard and, if necessary, decline inadequately priced business.

Our policy of offering core clients a portion of our capacity on a multi-year basis is paying off, both in terms of cementing relationships and smoothing some of the impacts of price competition. Since the majority of these deals were done in previous years when pricing was better, this has worked in our favour to date. On our headline reduction in premiums written, two things need to be remembered; first, we wrote a significant number of multi-year deals in 2014 precisely to mitigate the expected continued pricing declines; and second, the resultant earned premium numbers, which represent a 14% decrease on the previous year, compare more favourably. Lancashire has, as usual, been proactive about managing the cycle and we continue to see the benefit of having three business platforms, with contributions from Cathedral and Kinesis bolstering the Group's RoE for the year to date.

Our line size and leadership capability ensure that we remain important to our clients and brokers, and we are maintaining our core portfolio by adding value to each transaction. Unless you add value in this market you will be marginalised. Even in the terrorism lines, where broker facilities are taking an increasing market share, Lancashire's substantial capacity and strong team relationships mean that we have been able to preserve our underwriting standards and the bulk of our income. In energy, we have seen the double whammy of a soft insurance market and a soft oil price and this has affected demand. However, the loyalty of clients whom we have supported across the cycle has been seen in some increased shares and new orders, especially on our Gulf of Mexico wind product, which reduces the impact of the slump in activity. It's worth emphasising that our exposure is decreasing as well as our premium; that is part of managing the cycle and finding the optimal risk profile. In aviation, rates are declining at a more moderate pace compared to other lines, but given the recent loss record this is not a surprise. In marine hull and war, where we have avoided a spate of smaller losses, rating continues to soften. For property reinsurance, the risk excess of loss book written in Bermuda and Cathedral's portfolio of U.S. smaller clients have been somewhat immune from the more aggressive reductions seen on the larger U.S. and international catastrophe programmes. We continue to find capacity to cede parts of our risk, generating fees and again reducing our exposures.

Although there has been an absence of major catastrophe losses in the first half of the year, there have been some sizeable losses in the offshore energy line to the extent that the market is around break-even point before we even enter the Gulf of Mexico windstorm season. There have also been a series of satellite losses, bringing further pain to the aviation and space market. We have worked hard to protect our core portfolio and we feel that the result of this is that our business is in very good shape for this point in the cycle. We will stick to the fundamental Lancashire approach of being nimble and focusing on the underwriting.

Elaine Whelan, Group Chief Financial Officer, commented:

Excluding the impact of warrant exercises, the Group produced an RoE of 6.6 per cent for the the first six months of 2015. Our combined ratio was 75.1 per cent, or 71.8 per cent including fees and profit commission on our third party capital management activities.

Despite a few mid-sized losses in the period, with no notable cat events plus some favourable development on prior year reserves, our loss ratio was a very healthy 32.0 per cent. With significant volatility in the investment markets, we were pleased with our 1.0 per cent return in the first half of the year.

While the trading environment continues to be challenging, our performance through the first half of the year demonstrates our ability to manage the cycle and the quality of our portfolio. As ever, we will match our capital to our underwriting opportunities and we will continue to manage our risk levels in accordance with market conditions.

Lancashire Renewal Price Index for major classes

Lancashire's RPI is an internal methodology 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 Lancashire's Lloyd's business to offer a consistent basis for analysis.

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 2014:

Class	**30 Jun 2015 %**
Aviation (AV52)	94
Gulf of Mexico energy	95
Energy offshore worldwide	88
Marine	91
Property retrocession and reinsurance	87
Terrorism	91
Combined	**90**

Underwriting results

Gross premiums written	**Six months ended 30 Jun 2015 $m**	**Six months ended 30 Jun 2014 $m**	**Change $m**	**Change %**
Property	128.6	187.4	(58.8)	(31.4)
Energy	78.1	177.2	(99.1)	(55.9)
Marine	33.7	48.6	(14.9)	(30.7)
Aviation	17.7	31.7	(14.0)	(44.2)
Lloyd's	165.5	190.2	(24.7)	(13.0)
Total	**423.6**	**635.1**	**(211.5)**	**(33.3)**

Gross premiums earned	Six months ended 30 Jun 2015 $m	Six months ended 30 Jun 2014 $m	Change $m	Change %
Property	110.7	130.2	(19.5)	(15.0)
Energy	90.4	111.6	(21.2)	(19.0)
Marine	27.3	32.8	(5.5)	(16.8)
Aviation	21.1	27.2	(6.1)	(22.4)
Lloyd’s	123.0	132.5	(9.5)	(7.2)
Total	**372.5**	**434.3**	**(61.8)**	**(14.2)**

Gross premiums written decreased by 33.3 per cent in the first six months of 2015 compared to the same period in 2014, with the decrease in premiums derived primarily from the property and energy segments where a number of multi-year deals written in 2014 are not yet due to renew. Of the total reduction of $211.5 million in gross premiums written for the year to date, non-annual deals in those segments accounted for $140.2 million. Excluding the impact of these deals, the year to date reduction in gross premiums written was 11.2 per cent. Gross premiums earned for the year to date decreased by 14.2 per cent. The Group’s five principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 31.4 per cent in the first six months of 2015 compared to the first six months of 2014. While some pricing pressure remains, the vast majority of the decrease is driven by multi-year deals written in the first half of 2014 which are not yet due to renew. The property catastrophe excess of loss, terrorism and political risk classes all saw reductions due to the timing of multi-year contract renewals, although this is more typical of the terrorism and political risk books where business flow is less predictable. Only a small proportion of the political risk book is renewable with most business being driven by specific projects.

Energy gross premiums written decreased by 55.9 per cent in the first six months of 2015 compared to the first six months of 2014. The Gulf of Mexico book was responsible for most of the decrease during the first six months of 2015 with $64.5 million of multi-year year deals written in the second quarter of 2014 not yet due for renewal. We saw some new business in the first half of 2015 but a few of the 2014 multi-year deals were cancelled and replaced in the quarter, reducing the overall gross premiums written. However, that reduction has a minimal impact on expected 2015 earnings for the Gulf of Mexico book. Reductions in the worldwide offshore book continued due to the timing of non-annual contract renewals plus the impact of declining rates. The reduction in gross premiums earned in the energy book is significantly less that the reduction in gross premiums written reflecting the impact of continued earnings on the prior year multi-year deals.

Marine gross premiums written decreased by 30.7 per cent in the first six months of 2015 compared to the first six months of 2014. The decrease is largely due to non-annual contract renewals in the marine hull subclass written in 2014.

Aviation gross premiums written decreased by 44.2 per cent in the first six months of 2015 compared to the first six months of 2014. The decrease is mainly due to the timing of satellite launches on contracts written in previous years. Pricing and renewal rates remain under pressure in the AV52 class.

In the Lloyd’s segment gross premiums written decreased by 13.0 per cent for the first six months of 2015 compared to the same period in 2014. The decrease in premiums is due to pricing pressure across all historic lines of business, offset slightly by growth in the energy, terrorism and aviation classes that Cathedral began writing in 2014.

Ceded reinsurance premiums decreased by $0.9 million, or 0.6 per cent, for the first six-month period to 30 June 2015 compared to the same period in 2014. Both Lancashire and Cathedral have taken advantage of favourable conditions in the reinsurance market to buy more limit and attach lower for around the same outlay. The restructuring of our marine, energy and terrorism programmes has also enabled us to buy new coverage such as protection for our Gulf of Mexico energy wind exposures and new cover for the political risk book.

Net premiums earned as a proportion of net premiums written were 104.7 per cent in the six months to 30 June 2015, compared to 73.0 per cent in the same period in 2014. The increased percentage for the year to date is primarily due to the impact of multi-year deals written in the first half of 2014 where we are seeing the benefit of earnings coming through in the first half of 2015.

The Group's net loss ratio was 32.0 per cent for the six month period to 30 June 2015 compared to 34.5 per cent for the same period in 2014. The accident year loss ratio, including the impact of foreign exchange revaluations, was 52.2 per cent compared to 34.0 per cent for the same period in 2014. The first half of 2015 included some mid-sized energy and satellite losses. There were no other significant losses reported in the first six months of 2015 and attritional losses were also relatively low. There were no significant losses reported in the first six months of 2014.

Prior year favourable development was $61.2 million for the six months to 30 June 2015 driven by IBNR releases plus recoveries on our 2011 Thai flood losses. This compares to adverse development of $1.9 million for the same period in 2014, which was impacted by development on prior accident year mid-sized marine and energy claims plus a late reported claim from 2013.

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

For the six months ended 30 June 2015	**$m**	**%**
At 30 June	95.1	32.0
Absent prior year development	156.3	52.5
Adjusted loss ratio	**156.3**	**52.5**

Note: Adjusted loss ratio excludes prior year development and the impact of foreign exchange revaluations.

For the six months ended 30 June 2014	**$m**	**%**
At 30 June	124.7	34.5
Absent prior year development	122.8	34.0
Adjusted loss ratio	**122.8**	**34.0**

Note: Adjusted loss ratio excludes prior year development and the impact of foreign exchange revaluations.

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

	Six months ended 30 Jun 2015 $m	**Six months ended 30 Jun 2014 $m**
Property	27.7	17.3
Energy	17.4	(7.8)
Marine	7.1	(15.2)
Aviation	(0.2)	–
Lloyd's	9.2	3.8
Total	**61.2**	**(1.9)**

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the first half of 2015 and 2014:

	Six months ended 30 Jun 2015 $m	**Six months ended 30 Jun 2014 $m**
2006 accident year and prior	0.7	0.2
2007 accident year	0.9	(0.3)
2008 accident year	(2.6)	2.2
2009 accident year	3.2	2.5
2010 accident year	(4.5)	4.0
2011 accident year	19.7	(3.6)
2012 accident year	1.9	1.3
2013 accident year	20.2	(8.2)
2014 accident year	21.7	–
Total	**61.2**	**(1.9)**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 32.0 per cent compared to 29.4 per cent at 30 June 2014.

Investments

Net investment income, was $14.6 million for the first half of 2015, a decrease of 0.7 per cent from the first half of 2014. 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 $21.1 million for the first half of 2015 compared to $20.1 million for the first half of 2014. For the year to date, the standard fixed income portfolios have earned coupon-like returns, while overall investment performance has been supported by stronger returns from the bank loan, hedge fund and equity allocations. During the first six months of 2014 a decline in treasury yields, combined with narrowing credit spreads, led to positive returns in the Group's fixed income portfolio.

The corporate bond allocation represents 30.5 per cent of managed invested assets at 30 June 2015 compared to 28.5 per cent at 30 June 2014. At 30 June 2015 the Group's allocation to bank loans represents 6.0 per cent of the portfolio compared to 5.8 per cent at 30 June 2014.

The managed portfolio was invested as follows:

	30 Jun 2015 %	30 Jun 2014 %	31 Dec 2014 %
Fixed income securities	82.0	84.1	81.9
Cash and cash equivalents	9.1	11.4	10.6
Hedge funds	8.1	3.7	6.8
Equity securities	0.8	0.7	0.7
Other investments	–	0.1	–
Total	**100.0**	**100.0**	**100.0**

Key investment portfolio statistics are:

	30 Jun 2015	30 Jun 2014	31 Dec 2014
Duration	1.6 years	1.3 years	1.5 years
Credit quality	AA-	AA-	AA-
Book yield	1.5%	1.3%	1.5%
Market yield	1.5%	1.1%	1.5%

Third Party Capital Management

The $1.6 million share of profit of associates for the first six months of 2015 reflects Lancashire's 10 per cent equity interest in the Kinesis vehicle. The share of profit of associates of $2.5 million for the six months to 30 June 2014 is related to the Kinesis vehicle and the remaining interest in the Accordion vehicle.

Other income consists of the following items:

	Six months ended 30 Jun 2015 $m	Six months ended 30 Jun 2014 $m
Kinesis underwriting fees	1.5	1.4
Kinesis profit commission	5.3	–
Lloyd's managing agency fees and profit commission	3.0	3.5
Saltire profit commission	–	3.0
Total	**9.8**	**7.9**

During the first half of 2014 profit commission of $6.7 million was received following the commutation of our quota share agreement with Accordion, with the vehicle subsequently liquidated. The profit commission was recorded in net insurance acquisition expenses and reduced the net acquisition cost ratio by 1.9 per cent.

Other operating expenses

Operating expenses consist of the following items:

	Six months ended 30 Jun 2015 $m	Six months ended 30 Jun 2014 $m
Employee salaries and benefits	27.8	30.4
Payroll taxes and national insurance on equity compensation	1.2	(4.2)
Other operating expenses	21.8	24.5
Amortisation of intangible assets	–	6.9
Total	**50.8**	**57.6**

Employee remuneration costs were lower in the first six months of 2015 compared to the same period in the prior year largely due to the impact of the founding CEO's retirement package that was awarded in the first half of 2014. The first half of 2014 included a reversal of 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 are lower in the first six months of 2015 compared to the same period in the prior year largely due to reduced donations to the Lancashire Foundation, as the Foundation has sufficient funds to meet their goals in the current year. The amortisation of intangible assets arising on the acquisition of Cathedral was completed in the third quarter of 2014 and there was no further amortisation in 2015.

Equity based compensation was $4.8 million for the six months to 30 June 2015 compared to $10.7 million in the same period last year. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations. In the first half of 2014 the retirement of the founding CEO and accelerated vesting of his RSS awards gave rise to an equity based compensation charge of $3.5 million.

Capital

At 30 June 2015, total capital available to Lancashire was $1.656 billion, comprising shareholders' equity of $1.333 billion and $322.8 million of long-term debt. Tangible capital was $1.502 billion. Leverage was 19.5 per cent on total capital and 21.5 per cent on total tangible capital. Total capital and total tangible capital at 30 June 2014 were $1.836 billion and $1.678 billion respectively.

Warrants

The outstanding warrants to purchase the Company's common shares were issued on 16 December 2005 and expire on 16 December 2015. Warrant exercises during the period were as follows:

	Number of management team performance warrants	Number of management team ordinary warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants	Total number of warrants
Outstanding and exercisable as at 31 December 2013	**859,445**	**6,184,399**	**19,074,787**	**648,143**	**2,350,000**	**29,116,774**
Exercised during the period	(741,965)	(5,625,217)	(981,504)	–	–	(7,348,686)
Outstanding and exercisable as at 30 June 2014	**117,480**	**559,182**	**18,093,283**	**648,143**	**2,350,000**	**21,768,088**
Exercised during the period	–	–	(3,060,604)	–	–	(3,060,604)
Outstanding and exercisable as at 31 December 2014	**117,480**	**559,182**	**15,032,679**	**648,143**	**2,350,000**	**18,707,484**
Exercised during the period	(117,480)	(559,182)	(14,437,903)	(648,143)	(2,350,000)	(18,112,708)
Outstanding and exercisable as at 30 June 2015	**–**	**–**	**594,776**	**–**	**–**	**594,776**

Dividends

During the first quarter of 2015, the Lancashire Board of Directors declared a final dividend in respect of 2014 of $0.10 (£0.07) per common share and an additional special dividend for 2015 of $0.50 (£0.34) per common share. The dividend and dividend equivalents, totaling $119.0 million ($118.0 million and $1.0 million respectively), were paid on 15 April 2015 to shareholders and warrant holders of record on 20 March 2015.

Lancashire announces that its Board has declared an interim dividend for 2015 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 $9.9 million. The dividend will be paid in Pounds Sterling on 25 September 2015 (the "Dividend Payment Date") to shareholders of record on 28 August 2015 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

In addition to the interim dividend payment to shareholders, a dividend equivalent payment of approximately $0.03 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.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP") or other services including international payment, are encouraged to contact the Group registrars, Capita Registrars for more details at: http://www.capitaassetservices.com

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 2015

	Notes	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Gross premiums written	2	423.6	635.1	907.6
Outwards reinsurance premiums	2	(139.3)	(140.2)	(164.8)
Net premiums written		**284.3**	**494.9**	**742.8**
Change in unearned premiums	2	(51.1)	(200.8)	(37.0)
Change in unearned premiums on premiums ceded	2	64.4	67.2	9.8
Net premiums earned		**297.6**	**361.3**	**715.6**
Net investment income	3	14.6	14.7	28.6
Net other investment income (losses)	3	4.2	(0.9)	1.4
Net realised gains (losses) and impairments	3	0.4	(3.9)	(5.9)
Share of profit of associates	11	1.6	2.5	5.9
Other income		9.8	7.9	19.3
Net foreign exchange losses		(3.0)	(3.3)	(0.1)
Total net revenue		**325.2**	**378.3**	**764.8**
Insurance losses and loss adjustment expenses	2, 9	115.2	125.8	237.9
Insurance losses and loss adjustment expenses recoverable	2, 9	(20.1)	(1.1)	(11.4)
Net insurance losses		**95.1**	**124.7**	**226.5**
Insurance acquisition expenses	2	78.2	80.7	161.8
Insurance acquisition expenses ceded	2	(0.8)	(7.7)	(8.4)
Other operating expenses	4	50.8	57.6	111.3
Equity based compensation	4, 17	4.8	10.7	23.3
Total expenses		**228.1**	**266.0**	**514.5**
Results of operating activities		**97.1**	**112.3**	**250.3**
Financing costs	5	8.5	13.4	23.8
Profit before tax		**88.6**	**98.9**	**226.5**
Tax credit	6	4.3	5.8	3.1
Profit after tax		**92.9**	**104.7**	**229.6**
Profit (loss) for the period attributable to:				
Equity shareholders of LHL		92.6	104.9	229.3
Non-controlling interests		0.3	(0.2)	0.3
Profit for the period		**92.9**	**104.7**	**229.6**
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 7	1.8	10.3	(2.2)
Tax recovery (expense) on net change in unrealised gains / losses on investments	6, 7	0.1	(0.1)	0.1
Other comprehensive income (loss)		**1.9**	**10.2**	**(2.1)**
Total comprehensive income for the period		**94.8**	**114.9**	**227.5**
Total comprehensive income attributable to:				
Equity shareholders of LHL		94.5	115.1	227.2
Non-controlling interests		0.3	(0.2)	0.3
Total comprehensive income for the period		**94.8**	**114.9**	**227.5**
Earnings per share				
Basic	16	$0.48	$0.57	$1.24
Diluted	16	$0.47	$0.53	$1.16

Condensed interim consolidated balance sheet
As at 30 June 2015

	Notes	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Assets				
Cash and cash equivalents	13	303.0	345.4	303.5
Accrued interest receivable		6.9	8.5	7.7
Investments	7, 13	1,964.8	2,155.7	1,986.9
Reinsurance assets				
- Unearned premiums on premiums ceded		89.1	82.1	24.7
- Reinsurance recoveries	9	95.9	123.5	112.4
- Other receivables		8.4	6.9	5.3
Deferred acquisition costs		108.5	123.6	104.6
Other receivables		24.9	28.8	36.6
Inwards premiums receivable from insureds and cedants		380.3	464.5	316.2
Corporation tax receivable		–	4.8	4.3
Investment in associate	11	31.5	28.3	52.7
Property, plant and equipment		8.1	2.4	9.1
Intangible assets	12	153.8	157.8	153.8
Total assets		**3,175.2**	**3,532.3**	**3,117.8**
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	9	746.6	831.5	752.6
- Unearned premiums		530.2	642.9	479.1
- Other payables		46.5	39.3	40.8
Amounts payable to reinsurers		74.1	70.5	34.2
Deferred acquisition costs ceded		0.8	0.7	0.1
Corporation tax payable		4.2	–	–
Other payables		83.2	69.3	83.5
Deferred tax liability	10	28.5	37.4	38.7
Interest rate swap		4.3	4.0	4.9
Long-term debt		322.8	331.9	326.6
Total liabilities		**1,841.2**	**2,027.5**	**1,760.5**
Shareholders' equity				
Share capital	14	100.2	94.6	96.1
Own shares	14	(25.8)	(21.2)	(43.3)
Other reserves	15, 18	866.4	868.3	887.1
Accumulated other comprehensive income	7	2.7	13.1	0.8
Retained earnings		389.7	549.5	416.1
Total shareholders' equity attributable to equity shareholders of LHL		**1,333.2**	**1,504.3**	**1,356.8**
Non-controlling interests		0.8	0.5	0.5
Total shareholders' equity		**1,334.0**	**1,504.8**	**1,357.3**
Total liabilities and shareholders' equity		**3,175.2**	**3,532.3**	**3,117.8**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 28 July 2015 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 2015

	Notes	Share capital $m	Own shares $m	Share premium $m	Other reserves $m	Accumulated other compre-hensive income $m	Retained earnings $m	Shareholders' 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**	**700.9**	**2.9**	**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	15,18	–	–	(192.2)	192.2	–	–	–	–	–
Distributed by trust	14,15	–	17.9	–	(23.4)	–	–	(5.5)	–	(5.5)
Shares donated to trust	14,15	–	(6.3)	–	6.3	–	–	–	–	–
Dividends on common shares	14	–	–	–	–	–	(54.6)	(54.6)	–	(54.6)
Dividend equivalents on warrants	14	–	–	–	–	–	(8.6)	(8.6)	–	(8.6)
Warrant exercises	14,15	1.9	4.0	–	(5.9)	–	–	–	–	–
RSS compensation	14,15	–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Equity based compensation - tax	6, 10,15	–	–	–	(2.7)	–	–	(2.7)	–	(2.7)
Equity based compensation - expense	4,15,17	–	–	–	10.7	–	–	10.7	–	10.7
Balance as at 30 June 2014		**94.6**	**(21.2)**	**–**	**868.3**	**13.1**	**549.5**	**1,504.3**	**0.5**	**1,504.8**
Total comprehensive income for the period	7	–	–	–	–	(12.3)	124.4	112.1	0.5	112.6
Shares repurchased	14	–	(25.0)	–	–	–	–	(25.0)	–	(25.0)
Purchase of shares from non-controlling interests	15	–	–	–	(0.6)	–	–	(0.6)	(0.5)	(1.1)
Distributed by trust	14,15	–	3.7	–	(4.9)	–	–	(1.2)	–	(1.2)
Shares donated to trust	14,15	–	(1.8)	–	1.8	–	–	–	–	–
Dividends on common shares	14	–	–	–	–	–	(234.3)	(234.3)	–	(234.3)
Dividend equivalents on warrants	14	–	–	–	–	–	(23.5)	(23.5)	–	(23.5)
Warrant exercises	14,15	1.5	1.0	–	11.6	–	–	14.1	–	14.1
Equity based compensation - tax	6,10,15	–	–	–	(1.7)	–	–	(1.7)	–	(1.7)
Equity based compensation - expense	4,15,17	–	–	–	12.6	–	–	12.6	–	12.6
Balance as at 31 December 2014		**96.1**	**(43.3)**	**–**	**887.1**	**0.8**	**416.1**	**1,356.8**	**0.5**	**1,357.3**

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

For the six months ended 30 June 2015

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other compre-hensive income $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2014		**96.1**	**(43.3)**	**887.1**	**0.8**	**416.1**	**1,356.8**	**0.5**	**1,357.3**
Total comprehensive income for the period	7	–	–	–	1.9	92.6	94.5	0.3	94.8
Distributed by trust	14,15	–	10.7	(14.7)	–	–	(4.0)	–	(4.0)
Dividends on common shares	14	–	–	–	–	(118.1)	(118.1)	–	(118.1)
Dividend equivalents on warrants	14	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Warrant exercises	14,15	4.1	6.8	(10.9)	–	–	–	–	–
Equity based compensation - tax	6,10,15	–	–	0.1	–	–	0.1	–	0.1
Equity based compensation - expense	4,15,17	–	–	4.8	–	–	4.8	–	4.8
Balance as at 30 June 2015		**100.2**	**(25.8)**	**866.4**	**2.7**	**389.7**	**1,333.2**	**0.8**	**1,334.0**

Condensed interim statement of consolidated cash flows

For the six months ended 30 June 2015

	Notes	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Cash flows from operating activities				
Profit before tax		88.6	98.9	226.5
Tax refunded		2.7	1.0	1.0
Depreciation		1.0	0.6	2.1
Amortisation of intangible asset	12	–	19.4	23.4
Interest expense on long-term debt	5	7.5	7.8	15.5
Interest and dividend income		(20.4)	(21.9)	(50.5)
Net amortisation of fixed income securities		4.3	4.9	9.9
Equity based compensation	4	4.8	10.7	23.3
Foreign exchange losses		12.8	7.8	7.3
Share of profit of associates	11	(1.6)	(2.5)	(5.9)
Net other investment (income) losses		(4.2)	0.9	(1.4)
Net realised (gains) losses and impairments	3	(0.4)	3.9	5.9
Net unrealised (gains) losses on interest rate swaps		(0.6)	3.9	4.7
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		(32.9)	(7.8)	(35.5)
- Other assets and liabilities		9.0	(29.9)	(13.8)
Net cash flows from operating activities		**70.6**	**97.7**	**212.5**
Cash flows from (used in) investing activities				
Interest and dividend income received		21.2	27.9	52.0
Net purchase of property, plant and equipment		–	(0.3)	(8.7)
Investment in associates	17	22.8	38.8	17.9
Purchase of investments		(548.5)	(1,215.4)	(2,153.7)
Proceeds on sale of investments		567.8	1,077.0	2,159.0
Net cash flows from (used in) investing activities		**63.3**	**(72.0)**	**66.5**
Cash flows used in financing activities				
Interest paid		(7.6)	(7.8)	(15.5)
Dividends paid	14	(119.0)	(63.2)	(321.0)
Share repurchased		–	–	(25.0)
Warrants exercised		–	–	14.1
RSS compensation	17	–	(9.8)	(9.8)
Distributions by trust		(4.0)	(5.5)	(6.7)
Purchase of shares from non-controlling interests		–	–	(1.1)
Net cash flows used in financing activities		**(130.6)**	**(86.3)**	**(365.0)**
Net increase (decrease) in cash and cash equivalents		**3.3**	**(60.6)**	**(86.0)**
Cash and cash equivalents at beginning of period		303.5	403.0	403.0
Effect of exchange rate fluctuations on cash and cash equivalents		(3.8)	3.0	(13.5)
Cash and cash equivalents at end of period		**303.0**	**345.4**	**303.5**

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 2015. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2014.

There are amendments to existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2015. However, these are not currently relevant for the Group and 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 audited 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:

	2014 $m	2014 %	2013 $m	2013 %
January to June	635.1	70.0	423.9	62.4
July to December	272.5	30.0	255.8	37.6
Total	**907.6**	**100.0**	**679.7**	**100.0**

Gross premiums written for the six months ending 30 June 2015 were $423.6 million. The decrease in January to June 2015 gross premiums written compared to the same period for 2014 is primarily related to the property and energy segments where a number of multi-year deals written in 2014 are not yet due to renew.

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 impairment in the investment in associate is included in the figures below.

		30 Jun 2015		30 Jun 2014		31 Dec 2014	
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	233.3	15.5	269.8	16.1	254.2	16.6
Non-Gulf of Mexico - U.S.	Hurricane	229.7	15.3	293.3	17.5	254.0	16.6
California	Earthquake	137.1	9.1	147.6	8.8	154.8	10.1
Pan-European	Windstorm	87.1	5.8	139.1	8.3	133.2	8.7
Japan	Earthquake	72.3	4.8	115.2	6.9	116.0	7.6
Japan	Typhoon	45.2	3.0	62.0	3.7	61.2	4.0
Pacific North West	Earthquake	34.9	2.3	45.5	2.7	39.5	2.6

[(1)] Landing hurricane from Florida to Texas.

		30 Jun 2015		30 Jun 2014		31 Dec 2014	
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	348.1	23.2	408.2	24.3	377.2	24.7
Non-Gulf of Mexico - U.S.	Hurricane	452.3	30.1	509.7	30.4	455.8	29.8
California	Earthquake	222.7	14.8	238.3	14.2	247.5	16.2
Pan-European	Windstorm	129.6	8.6	216.2	12.9	205.0	13.4
Japan	Earthquake	143.1	9.5	189.5	11.3	184.8	12.1
Japan	Typhoon	66.3	4.4	88.7	5.3	94.6	6.2
Pacific North West	Earthquake	91.3	6.1	135.1	8.0	123.3	8.1

[(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 100 to 126 in the Group's Annual Report and Accounts for the year ended 31 December 2014. 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 and Bermuda. 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 29, 20 Fenchurch Street, London, EC3M 3BY, 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 104 to 107 of the Group's Annual Report and Accounts for the year ended 31 December 2014. 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 significant 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 2015

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Lloyd's**	**Total**
(Analysed by geographical region)						
U.S. and Canada	57.8	1.3	–	–	70.7	129.8
Worldwide offshore	0.1	73.0	32.8	–	–	105.9
Worldwide, including the U.S. and Canada [(1)]	14.7	3.4	–	17.7	45.6	81.4
Europe	16.2	–	–	–	18.1	34.3
Far East	14.9	(0.1)	–	–	6.6	21.4
Worldwide, excluding the U.S. and Canada [(2)]	7.7	–	–	–	6.0	13.7
Middle East	2.1	–	–	–	0.4	2.5
Rest of world	15.1	0.5	0.9	–	18.1	34.6
Total	**128.6**	**78.1**	**33.7**	**17.7**	**165.5**	**423.6**
Outwards reinsurance premiums	(47.3)	(31.3)	(11.0)	(7.2)	(42.5)	(139.3)
Change in unearned premiums	(17.9)	12.3	(6.4)	3.4	(42.5)	(51.1)
Change in unearned premiums ceded	25.4	13.3	4.8	3.2	17.7	64.4
Net premiums earned	**88.8**	**72.4**	**21.1**	**17.1**	**98.2**	**297.6**
Insurance losses and loss adjustment expenses	(2.8)	(50.4)	(3.1)	(22.8)	(36.1)	(115.2)
Insurance losses and loss adjustment expenses recoverable	14.7	0.7	–	7.5	(2.8)	20.1
Insurance acquisition expenses	(17.0)	(26.5)	(7.7)	(4.5)	(22.5)	(78.2)
Insurance acquisition expenses ceded	0.2	0.3	0.2	–	0.1	0.8
Net underwriting profit (loss)	**83.9**	**(3.5)**	**10.5**	**(2.7)**	**36.9**	**125.1**
Net unallocated income and expenses						(36.5)
Profit before tax						**88.6**
Net loss ratio	(13.4%)	68.6%	14.7%	89.5%	39.6%	32.0%
Net acquisition cost ratio	18.9%	36.2%	35.5%	26.3%	22.8%	26.0%
Expense ratio	–	–	–	–	–	17.1%
Combined ratio	**5.5%**	**104.8%**	**50.2%**	**115.8%**	**62.4%**	**75.1%**

[(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 excludes the U.S. and Canada.

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)						
U.S. and Canada	79.3	11.8	–	–	83.7	174.8
Worldwide offshore	0.1	160.9	47.8	0.1	–	208.9
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	(57.2)	(65.6)	(15.8)	(4.5)	(57.7)	(200.8)
Change in unearned premiums ceded	19.1	17.5	4.7	4.4	21.5	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	(18.4)	(24.7)	(9.3)	(5.1)	(23.2)	(80.7)
Insurance acquisition expenses ceded	7.1	0.3	0.2	–	0.1	7.7
Net underwriting profit (loss)	**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 excludes the U.S. and Canada.

Revenue and expense by operating segment - for the year ended 31 December 2014

Gross premiums written	$m Property	$m Energy	$m Marine	$m Aviation	$m Lloyd's	$m Total
(Analysed by geographical region)						
U.S. and Canada	92.3	12.5	–	–	116.9	221.7
Worldwide offshore	0.1	220.2	67.0	0.1	–	287.4
Worldwide, including the U.S. and Canada [(1)]	33.4	3.7	–	53.1	82.3	172.5
Europe	34.6	0.9	–	–	24.1	59.6
Far East	33.8	(0.1)	–	–	9.0	42.7
Worldwide, excluding the U.S. and Canada [(2)]	14.4	0.4	–	–	8.4	23.2
Middle East	8.0	0.5	–	–	1.0	9.5
Rest of world	46.4	1.3	0.7	–	42.6	91.0
Total	**263.0**	**239.4**	**67.7**	**53.2**	**284.3**	**907.6**
Outwards reinsurance premiums	(34.3)	(47.8)	(9.7)	(8.1)	(64.9)	(164.8)
Change in unearned premiums	(9.9)	(22.5)	(0.3)	4.7	(9.0)	(37.0)
Change in unearned premiums ceded	2.7	0.6	–	2.8	3.7	9.8
Net premiums earned	**221.5**	**169.7**	**57.7**	**52.6**	**214.1**	**715.6**
Insurance losses and loss adjustment expenses	(12.0)	(55.2)	(27.6)	(32.9)	(110.2)	(237.9)
Insurance losses and loss adjustment expenses recoverable	(9.6)	13.3	–	–	7.7	11.4
Insurance acquisition expenses	(33.4)	(53.1)	(17.9)	(9.7)	(47.7)	(161.8)
Insurance acquisition expenses ceded	7.2	0.7	0.2	0.1	0.2	8.4
Net underwriting profit	**173.7**	**75.4**	**12.4**	**10.1**	**64.1**	**335.7**
Net unallocated income and expenses						(109.2)
Profit before tax						**226.5**
Net loss ratio	9.8%	24.7%	47.8%	62.5%	47.9%	31.7%
Net acquisition cost ratio	11.8%	30.9%	30.7%	18.3%	22.2%	21.4%
Expense ratio	–	–	–	–	–	15.6%
Combined ratio	**21.6%**	**55.6%**	**78.5%**	**80.8%**	**70.1%**	**68.7%**

(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 excludes 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 2015	$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	14.1	1.6	1.3	17.0	(6.0)	11.0
Fixed income securities, at FVTPL	0.5	–	–	0.5	–	0.5
Equity securities, AFS	0.2	(0.1)	0.5	0.6	–	0.6
Hedge funds, at FVTPL	3.7	–	–	3.7	–	3.7
Other investments	–	(1.1)	–	(1.1)	1.3	0.2
Cash and cash equivalents	0.3	–	–	0.3	(0.1)	0.2
Total investment return	**18.8**	**0.4**	**1.8**	**21.0**	**(4.8)**	**16.2**

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 year ended 31 December 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	27.7	2.7	(1.8)	28.6	(9.5)	19.1
Fixed income securities, at FVTPL	1.6	–	–	1.6	–	1.6
Equity securities, AFS	0.5	(0.4)	(0.4)	(0.3)	–	(0.3)
Hedge funds, at FVTPL	2.1	–	–	2.1	–	2.1
Other investments	(2.3)	(8.2)	–	(10.5)	1.9	(8.6)
Cash and cash equivalents	0.4	–	–	0.4	(0.6)	(0.2)
Total investment return	**30.0**	**(5.9)**	**(2.2)**	**21.9**	**(8.2)**	**13.7**

Net realised gains (losses) and impairments includes impairment losses of $0.4 million (30 June 2014 - $nil; 31 December 2014 - $0.3 million) recognised 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. Included in investment income is $1.7 million (30 June 2014 - $2.3 million; 31 December 2014 - $5.7 million) of investment management, accounting and custodian fees.

4. Employee benefits

	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Wages and salaries	13.5	14.3	27.4
Pension costs	1.6	1.7	3.0
Bonus and other benefits	13.9	10.2	23.7
Total cash compensation	**29.0**	**26.2**	**54.1**
RSS - ordinary	1.0	6.3	12.6
RSS - bonus deferral	1.0	2.0	3.2
RSS - Cathedral acquisition	2.8	2.4	7.5
Total equity based compensation	**4.8**	**10.7**	**23.3**
Total employee benefits	**33.8**	**36.9**	**77.4**

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	**6,184,399**	**$4.64**
Exercised	(5,625,217)	$4.63
As at 31 December 2014 and 30 June 2014	**559,182**	**$4.72**
Exercised	(559,182)	$4.72
As at 30 June 2015	**–**	**–**

	30 Jun 2015	30 Jun 2014	31 Dec 2014
Weighted average remaining contractual life	–	1.5 years	1.0 year
Weighted average share price at date of exercise during the period	$9.96	$10.95	$10.55

Management team performance warrants

Performance warrants granted and outstanding are:

	Number	Weighted average exercise price
As at 31 December 2013	**859,445**	**$3.62**
Exercised	(741,965)	$3.62
As at 31 December 2014 and 30 June 2014	**117,480**	**$3.62**
Exercised	(117,480)	$3.62
As at 30 June 2015	**–**	**–**

	30 Jun 2015	30 Jun 2014	31 Dec 2014
Weighted average remaining contractual life	–	1.5 years	1.0 year
Weighted average share price at date of exercise during the period	$9.96	$10.99	$11.07

5. Financing costs

	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Interest expense on long-term debt	7.5	7.8	15.5
Net losses on interest rate swap	0.7	5.2	7.4
Other financing costs	0.3	0.4	0.9
Total	**8.5**	**13.4**	**23.8**

Refer to note 13 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 Kingdom

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

Tax (credit) charge	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Corporation tax charge for the period	5.7	1.0	0.4
Adjustments in respect of prior period corporation tax	–	–	0.2
Deferred tax credit for the period	(6.7)	(6.4)	(2.9)
Adjustments in respect of prior period deferred tax	(2.8)	–	–
Tax rate change adjustment	(0.5)	(0.4)	(0.8)
Total tax credit	**(4.3)**	**(5.8)**	**(3.1)**

Tax reconciliation	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Profit before tax	88.6	98.9	226.5
UK corporation tax at 20.3% (2014 - 21.5%)	17.9	21.3	48.7
Non-taxable income	(20.1)	(25.9)	(59.8)
Adjustments in respect of prior period	(2.8)	–	0.2
Differences related to equity based compensation	(0.1)	(10.0)	(8.5)
Other expense permanent differences	1.3	0.3	2.2
Tax rate change adjustment	(0.5)	(0.4)	(0.8)
Unused tax losses not recognised for deferred tax	–	8.9	14.9
Total tax credit	**(4.3)**	**(5.8)**	**(3.1)**

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 4.9 per cent (30 June 2014 - negative 5.8 per cent; 31 December 2014 - negative 1.4 per cent).

The following tax movements were recognised in other reserves relating to tax deductions for equity based compensation award exercises and temporary differences in respect of unexercised awards where the estimated market value is in excess of the cumulative expense at the reporting date.

Tax (credit) charge in other reserves	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Corporation tax credit	-	(1.1)	-
Deferred tax (credit) charge	(0.1)	3.8	4.4
Total tax (credit) charge in other reserves	**(0.1)**	**2.7**	**4.4**

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

The UK corporation tax rate as at 30 June 2015 was 20.0 per cent (effective from 1 April 2015). Until 1 April 2015 the UK corporation tax rate of 21.0 per cent applied. The current 20.0 per cent rate has been reflected in the closing deferred tax position on the balance sheet.

7. Investments

As at 30 June 2015	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities, AFS				
- Short-term investments	55.3	–	–	55.3
- Fixed income funds	15.9	0.6	(2.8)	13.7
- U.S. treasuries	333.9	1.0	(0.4)	334.5
- Other government bonds	75.0	0.7	(5.8)	69.9
- U.S. municipal bonds	23.9	0.4	(0.1)	24.2
- U.S. government agency debt	15.5	0.2	–	15.7
- Asset backed securities	181.0	0.3	(1.1)	180.2
- U.S. government agency mortgage backed securities	175.3	2.3	(1.4)	176.2
- Non-agency mortgage backed securities	21.6	0.2	(0.5)	21.3
- Agency commercial mortgage backed securities	1.7	–	–	1.7
- Non-agency commercial mortgage backed securities	35.2	0.4	(0.1)	35.5
- Bank loans	131.8	0.3	(1.7)	130.4
- Corporate bonds	661.6	2.9	(5.3)	659.2
Total fixed income securities, AFS	**1,727.7**	**9.3**	**(19.2)**	**1,717.8**
- Fixed income securities, at FVTPL	55.0	2.0	(0.3)	56.7
- Equity securities, AFS	16.1	3.2	(2.6)	16.7
- Hedge funds, at FVTPL	168.1	9.2	(3.4)	173.9
- Other investments	–	–	(0.3)	(0.3)
Total investments	**1,966.9**	**23.7**	**(25.8)**	**1,964.8**

As at 30 June 2014	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m 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 31 December 2014	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities, AFS				
- Short-term investments	30.4	–	–	30.4
- Fixed income funds	17.1	0.5	(2.2)	15.4
- U.S. treasuries	363.0	1.0	(1.0)	363.0
- Other government bonds	88.5	0.8	(5.3)	84.0
- U.S. municipal bonds	28.6	0.4	(0.1)	28.9
- U.S. government agency debt	17.3	0.3	(0.1)	17.5
- Asset backed securities	185.1	0.3	(1.3)	184.1
- U.S. government agency mortgage backed securities	165.9	2.8	(0.7)	168.0
- Non-agency mortgage backed securities	20.9	0.3	(0.4)	20.8
- Agency commercial mortgage backed securities	2.4	–	–	2.4
- Non-agency commercial mortgage backed securities	39.0	0.6	–	39.6
- Bank loans	131.2	0.1	(3.4)	127.9
- Corporate bonds	707.0	3.4	(5.3)	705.1
Total fixed income securities, AFS	**1,796.4**	**10.5**	**(19.8)**	**1,787.1**
- Fixed income securities, at FVTPL	30.0	1.2	–	31.2
- Equity securities, AFS	15.8	2.0	(2.0)	15.8
- Hedge funds, at FVTPL	150.0	4.3	(2.2)	152.1
- Other investments	–	0.7	–	0.7
Total investments	**1,992.2**	**18.7**	**(24.0)**	**1,986.9**

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 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Gross unrealised gains	12.5	19.0	12.5
Gross unrealised losses	(21.8)	(5.7)	(21.8)
Net foreign exchange losses on fixed income - AFS	12.1	0.2	10.3
Tax provision	(0.1)	(0.4)	(0.2)
Accumulated other comprehensive income	**2.7**	**13.1**	**0.8**

Refer to note 13 for details of the investment balances in trusts in favour of policyholders, 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:

- Fixed income funds;
- 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, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and swaptions.

Level (iii)
Level (iii) investments are 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 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 do not anticipate any material variance between estimated valuations.

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the remainder of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation, and the effectiveness, of those controls. The audit reports are available to clients of the firm and the reports are reviewed annually by management. In accordance with their 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 prices provided by investment managers. 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 2015 and 30 June 2014 and the year ended 31 December 2014.

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.

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

As at 30 June 2015	$m Level (i)	$m Level (ii)	$m Level (iii)	$m Total
Fixed income securities, AFS				
- Short-term investments	55.3	–	–	55.3
- Fixed income funds	–	13.7	–	13.7
- U.S. treasuries	334.5	–	–	334.5
- Other government bonds	–	69.9	–	69.9
- U.S. municipal bonds	–	24.2	–	24.2
- U.S. government agency debt	–	15.7	–	15.7
- Asset backed securities	–	180.2	–	180.2
- U.S. government agency mortgage backed securities	–	176.2	–	176.2
- Non-agency mortgage backed securities	–	21.3	–	21.3
- Agency commercial mortgage backed securities	–	1.7	–	1.7
- Non-agency commercial mortgage backed securities	–	35.5	–	35.5
- Bank loans	–	130.4	–	130.4
- Corporate bonds	–	659.2	–	659.2
Total fixed income securities, AFS	**389.8**	**1,328.0**	**–**	**1,717.8**
- Fixed income securities, at FVTPL	–	56.7	–	56.7
- Equity securities, AFS	16.7	–	–	16.7
- Hedge funds, at FVTPL	–	–	173.9	173.9
- Other investments	–	(0.3)	–	(0.3)
Total investments	**406.5**	**1,384.4**	**173.9**	**1,964.8**

As at 30 June 2014	$m Level (i)	$m Level (ii)	$m Level (iii)	$m Total
Fixed income securities				
- 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 31 December 2014	$m Level (i)	$m Level (ii)	$m Level (iii)	$m Total
Fixed income securities, AFS				
- Short-term investments	30.3	0.1	–	30.4
- Fixed income funds	–	15.4	–	15.4
- U.S. treasuries	363.0	–	–	363.0
- Other government bonds	–	84.0	–	84.0
- U.S. municipal bonds	–	28.9	–	28.9
- U.S. government agency debt	–	17.5	–	17.5
- Asset backed securities	–	184.1	–	184.1
- U.S. government agency mortgage backed securities	–	168.0	–	168.0
- Non-agency mortgage backed securities	–	20.8	–	20.8
- Agency commercial mortgage backed securities	–	2.4	–	2.4
- Non-agency commercial mortgage backed securities	–	39.6	–	39.6
- Bank loans	–	127.9	–	127.9
- Corporate bonds	–	705.1	–	705.1
Total fixed income securities, AFS	**393.3**	**1,393.8**	**–**	**1,787.1**
- Fixed income securities, at FVTPL	–	31.2	–	31.2
- Equity securities, AFS	15.8	–	–	15.8
- Hedge funds, at FVTPL	–	–	152.1	152.1
- Other investments	–	0.7	–	0.7
Total investments	**409.1**	**1,425.7**	**152.1**	**1,986.9**

There have been no transfers between Levels (i) and (ii) therefore no reconciliations have been presented.

The table below analyses the movements in hedge funds classified as Level (iii) investments during the six months ended 30 June 2015 and 30 June 2014 and for the year ended 31 December 2014:

	Hedge funds $m
As at 31 December 2013	**–**
Purchases	88.5
Total net gains recognised in other investment income in profit or loss	1.0
As at 30 June 2014	**89.5**
Purchases	61.5
Total net gains recognised in other investment income in profit or loss	1.1
As at 31 December 2014	**152.1**
Purchases	18.1
Total net gains recognised in other investment income in profit or loss	3.7
As at 30 June 2015	**173.9**

8. Interest in structured entities

A. Consolidated structured entities

The Group's only consolidated structured entity is the EBT. The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT.

B. Unconsolidated structured entities in which the Group has an interest

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 30 June 2015, the Group's total interest in unconsolidated structured entities was $620.3 million (30 June 2014 - $588.2 million; 31 December 2014 - $619.7 million). The Group does not sponsor any of the unconsolidated structured entities.

A summary of the Group's interest in unconsolidated structured entities is as follows:

As at 30 June 2015	**$m**	**$m**	**$m**
	Investments	**Interest in associate**	**Total**
Fixed income securities			
- Asset backed securities	180.2	–	180.2
- U.S. government agency mortgage backed securities	176.2	–	176.2
- Non-agency mortgage backed securities	21.3	–	21.3
- Agency commercial mortgage backed securities	1.7	–	1.7
- Non-agency commercial mortgage backed securities	35.5	–	35.5
Total fixed income securities	**414.9**	**–**	**414.9**
Investment funds			
- Hedge funds	173.9	–	173.9
Total investment funds	**173.9**	**–**	**173.9**
Specialised investment vehicle			
- KHL (note 11)	–	31.5	31.5
Total	**588.8**	**31.5**	**620.3**

As at 30 June 2014	**$m**	**$m**	**$m**
	Investments	**Interest in associate**	**Total**
Fixed income securities			
- 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
Total fixed income securities	**470.4**	**–**	**470.4**
Investment funds			
- Hedge funds	89.5	–	89.5
Total investment funds	**89.5**	**–**	**89.5**
Specialised investment vehicle			
- KHL (note 11)	–	28.3	28.3
Total	**559.9**	**28.3**	**588.2**

As at 31 December 2014	$m Investments	$m Interest in associate	$m Total
Fixed income securities			
- Asset backed securities	184.1	–	184.1
- U.S. government agency mortgage backed securities	168.0	–	168.0
- Non-agency mortgage backed securities	20.8	–	20.8
- Agency commercial mortgage backed securities	2.4	–	2.4
- Non-agency commercial mortgage backed securities	39.6	–	39.6
Total fixed income securities	**414.9**	**–**	**414.9**
Investment funds			
- Hedge funds	152.1	–	152.1
Total investment funds	**152.1**	**–**	**152.1**
Specialised investment vehicle			
- KHL (note 11)	–	52.7	52.7
Total	**567.0**	**52.7**	**619.7**

The fixed income securities structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed income securities. While individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories detailed above.

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the balance sheet in that estimated fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors expectation of the cash flows associated with the instrument and, therefore, its estimated value in the market. Risk management disclosure for these financial instruments and other investments is provided on pages 111 to 123 of the Group's Annual Report and Accounts for the year ended 31 December 2014. The total assets of these entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group holds as at 30 June 2015, 30 June 2014 and 31 December 2014. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and continually through the holding period for the security. The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

As at 30 June 2015 the Group has unfunded commitments of $50.0 million (30 June 2014 - $nil; 31 December 2014 - $nil) in respect of a credit facility fund (refer to note 20). The maximum exposure to the credit facility fund is $50.0 million.

9. 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 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**
Net incurred losses for:			
Prior years	(38.0)	1.7	(36.3)
Current year	150.1	(12.0)	138.1
Exchange adjustments	(20.7)	1.3	(19.4)
Incurred losses and loss adjustment expenses	**91.4**	**(9.0)**	**82.4**
Net paid losses for:			
Prior years	115.9	(15.3)	100.6
Current year	54.4	(4.8)	49.6
Paid losses and loss adjustment expenses	**170.3**	**(20.1)**	**150.2**
As at 31 December 2014	**752.6**	**(112.4)**	**640.2**
Net incurred losses for:			
Prior years	(53.3)	(7.9)	(61.2)
Current year	168.5	(12.2)	156.3
Exchange adjustments	2.8	0.3	3.1
Incurred losses and loss adjustment expenses	**118.0**	**(19.8)**	**98.2**
Net paid losses for:			
Prior years	114.1	(36.3)	77.8
Current year	9.9	–	9.9
Paid losses and loss adjustment expenses	**124.0**	**(36.3)**	**87.7**
As at 30 June 2015	**746.6**	**(95.9)**	**650.7**

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 $149.3 million (30 June 2014 - $166.3 million; 31 December 2014 - $150.5 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 2015 $m	30 Jun 2015 %	30 Jun 2014 $m	30 Jun 2014 %	31 Dec 2014 $m	31 Dec 2014 %
Outstanding losses	300.0	40.2	448.2	53.9	369.3	49.1
Additional case reserves	224.2	30.0	155.4	18.7	159.7	21.2
Losses incurred but not reported	222.4	29.8	227.9	27.4	223.6	29.7
Total	**746.6**	**100.0**	**831.5**	**100.0**	**752.6**	**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 (unfavourable) development on the established reserves. The total favourable or (unfavourable) development on net losses and loss adjustment expenses from prior years, excluding the impact of foreign exchange revaluations, was as follows:

	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
2006 accident year and prior	0.7	0.2	1.8
2007 accident year	0.9	(0.3)	(0.3)
2008 accident year	(2.6)	2.2	3.6
2009 accident year	3.2	2.5	4.3
2010 accident year	(4.5)	4.0	5.7
2011 accident year	19.7	(3.6)	(6.1)
2012 accident year	1.9	1.3	11.1
2013 accident year	20.2	(8.2)	14.3
2014 accident year	21.7	–	–
Total	**61.2**	**(1.9)**	**34.4**

The favourable prior year development in 2015 arose primarily from IBNR releases due to lower than expected reported losses and releases on net settlement of outstanding losses. 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.

10. Deferred tax

	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Equity based compensation	(3.5)	(3.0)	(3.2)
Claims equalisation reserves	15.4	17.7	15.1
Syndicate underwriting profits	1.8	10.0	13.3
Syndicate participation rights	16.0	16.1	16.0
Other temporary differences	0.1	1.9	0.2
Tax losses carried forward	(1.3)	(5.3)	(2.7)
Net deferred tax liability	**28.5**	**37.4**	**38.7**

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 in 2015 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of $15.9 million (30 June 2014 - $11.6 million; 31 December 2014 - $18.7 million) 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.

The UK government has announced its intention to legislate to reduce the rate of corporation tax to 19.0 per cent with effect from 1 April 2017 and to 18.0 per cent with effect from 1 April 2020. It is estimated that the effect of these changes will be to reduce the Group's deferred tax liability by approximately $2.2 million.

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

11. Investment in associate

KHL

The Group holds a 10.0 per cent interest in the preference shares of each segregated account of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 30 June 2015 the carrying value of the Group's investment in KHL was $31.5 million (30 June 2014 - $28.3 million; 31 December 2014 - $52.7 million). The Group's share of comprehensive income for KHL for the period was $1.6 million (30 June 2014 - $1.5 million; 31 December 2014 - $4.7 million).

Key financial information for KHL is as follows:

	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Assets	365.4	339.7	551.2
Liabilities	50.6	56.2	24.6
Shareholders' equity	314.8	283.5	526.6
Gross premiums earned	19.0	17.8	79.8
Comprehensive income	15.8	14.7	47.0

The Group has the power to participate in the operational and financial policy decisions of KHL and KRL through the provision of essential technical information by KCML and has therefore classified its investment in KHL as an investment in associate.

The Group's share of comprehensive income for AHL for the period was $nil (30 June 2014 - $1.0 million; 31 December 2014 - $1.1 million). The Group's share of comprehensive income for SHL for the period was $nil (30 June 2014 - $nil; 31 December 2014 - $0.1 million).

Refer to note 17 for details of transactions between the Group, KHL, KRL, AHL, ARL, SHL and SRL.

12. Intangible assets

	Value of in-force business $m	Syndicate participation rights $m	Goodwill $m	Total $m
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**
Amortisation charge for the period through insurance acquisition expenses	(2.5)	–	–	(2.5)
Amortisation charge for the period through other operating expenses	(1.5)	–	–	(1.5)
Net book value at 30 June 2015 and 31 December 2014 [(1)]	**–**	**82.6**	**71.2**	**153.8**

(1) During the period ended 30 June 2015 the amortisation charge was $nil.

13. Financing arrangements

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 2015:

(i) a $350.0 million syndicated collateralised credit facility with a $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 2015; and
(ii) a $50.0 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 and for 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 30.0 per cent, where the LHL issued 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 $50.0 million bi-lateral uncommitted LOC facility does not contain default provisions or covenants.

The following LOCs have been issued:

	30 Jun 2015 $m	30 Jun 2014 $m	31 Dec 2014 $m
Issued to third parties	21.5	23.1	31.8

LOCs are required to be fully collateralised.

Syndicate bank facilities

As at 30 June 2015, 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 2015, Syndicate 3010 had in place an $40.0 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 $20.0 million can be utilised by way of an LOC to assist Syndicate 3010's gross funding requirements.

The total combined maximum borrowings available to Syndicate 2010 and Syndicate 3010 under these facilities is $100.0 million.

There were no balances outstanding under either of the syndicate catastrophe facilities as all reporting dates. 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 2015, 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 19 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 2015	$m	$m	$m
	Cash and cash equivalents	Fixed income securities	Equity securities
FAL	42.6	170.7	16.7
Syndicate accounts	9.8	78.5	–
In various other trust accounts for policyholders	2.7	21.0	–
MBRT accounts	0.5	31.5	–
In favour of LOCs	8.1	25.4	–
In favour of derivative contracts	1.8	1.7	–
Total	**65.5**	**328.8**	**16.7**

As at 30 June 2014	$m	$m	$m
	Cash and cash equivalents	Fixed income securities	Equity securities
FAL	4.2	171.6	17.2
Syndicate accounts	8.9	102.8	–
In various other trust accounts for policyholders	5.3	18.0	–
MBRT accounts	-	26.5	–
In favour of LOCs	9.9	20.0	–
In favour of derivative contracts	0.2	11.6	–
Total	**28.5**	**350.5**	**17.2**

As at 31 December 2014	$m	$m	$m
	Cash and cash equivalents	Fixed income securities	Equity securities
FAL	6.9	167.5	15.8
Syndicate accounts	6.9	89.6	–
In various other trust accounts for policyholders	0.7	22.9	–
MBRT accounts	0.3	31.3	–
In favour of LOCs	8.0	25.3	–
In favour of derivative contracts	1.5	1.7	–
Total	**24.3**	**338.3**	**15.8**

14. Share capital

Authorised ordinary shares of $0.50 each	Number	$m
As at 30 June 2015 and 2014 and 31 December 2014 and 2013	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
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**
Shares issued	2,829,210	1.5
As at 31 December 2014	**192,112,598**	**96.1**
Shares issued	8,229,320	4.1
As at 30 June 2015	**200,341,918**	**100.2**

The new common shares issued during 2015 and 2014 were to satisfy the cashless exercises of warrants.

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
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**
Shares distributed	(122,008)	(1.0)	(295,266)	(3.7)	(417,274)	(4.7)
Shares repurchased	2,498,433	25.0	–	–	2,498,433	25.0
Shares donated to trust	(1,333,566)	(9.1)	1,333,566	10.9	–	1.8
As at 31 December 2014	**2,950,947**	**27.8**	**1,657,069**	**15.5**	**4,608,016**	**43.3**
Shares distributed	(824,803)	(6.8)	(1,158,347)	(10.7)	(1,983,150)	(17.5)
As at 30 June 2015	**2,126,144**	**21.0**	**498,722**	**4.8**	**2,624,866**	**25.8**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2015 was 198,215,774 (30 June 2014 - 187,375,300; 31 December 2014 - 189,161,651).

Share repurchases

At the AGM held on 30 April 2015 the Group's shareholders approved the renewal of the Repurchase Programme authorising the repurchase of a maximum of 20,034,191 shares, with such authority to expire on the conclusion of the 2016 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed.

During the six months ended 30 June 2015 and 30 June 2014 no shares were repurchased by the Group under the Share Repurchase Programme. During the second half of 2014 $25.0 million (2,498,433 shares) were repurchased by the Group at a weighted average share price of £6.27.

The trustees of the EBT acquired nil shares during all reporting periods, in accordance with the terms of that trust and distributed 1,158,347 shares (30 June 2014 - 1,348,341; 31 December 2014 - 1,643,647). 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	21 Mar 2014	16 Apr 2014	21.1
Special	$0.20	21 Mar 2014	16 Apr 2014	42.1
Interim	$0.05	29 Aug 2014	24 Sep 2014	10.4
Special	$1.20	28 Nov 2014	19 Dec 2014	247.4
Final	$0.10	20 Mar 2015	15 Apr 2015	19.8
Special	$0.50	20 Mar 2015	15 Apr 2015	99.2

15. Other reserves
Other reserves consists of the following:

	Contributed surplus $m	Equity based compensation $m	Total other reserves $m
Balance as at 31 December 2013	**633.1**	**67.8**	**700.9**
Share premium reclassification	192.2	–	192.2
Distributed by trust	(23.4)	–	(23.4)
Shares donated to trust	6.3	–	6.3
Warrant exercises	10.8	(16.7)	(5.9)
RSS compensation	(9.8)	–	(9.8)
Equity based compensation - tax	–	(2.7)	(2.7)
Equity based compensation - exercises	19.2	(19.2)	–
Equity based compensation - expense	–	10.7	10.7
Balance as at 30 June 2014	**828.4**	**39.9**	**868.3**
Purchase of shares from non-controlling interest	(0.6)	–	(0.6)
Distributed by trust	(4.9)	–	(4.9)
Shares donated to trust	1.8	–	1.8
Warrant exercises	11.6	–	11.6
Equity based compensation - tax	–	(1.7)	(1.7)
Equity based compensation - exercises	2.1	(2.1)	–
Equity based compensation - expense	–	12.6	12.6
Balance as at 31 December 2014	**838.4**	**48.7**	**887.1**
Distributed by trust	(14.7)	–	(14.7)
Warrant exercises	(1.4)	(9.5)	(10.9)
Equity based compensation - tax	–	0.1	0.1
Equity based compensation - exercises	11.0	(11.0)	–
Equity based compensation - expense	–	4.8	4.8
Balance as at 30 June 2015	**833.3**	**33.1**	**866.4**

Equity based compensation reserves represent the fair value, at the grant date, for all outstanding RSS options, LTIP and management team ordinary and performance warrants held by employees, adjusted for any applicable performance conditions. Refer to note 4 for changes in the number of warrants held by employees.

Given the equity nature of the Founder warrants, they are recorded net within other reserves. Founder warrants exercised during the six months ended 30 June 2015 were $37.8 million (30 June 2014 - $2.6 million; 31 December 2014 - $10.6 million).

The changes in the number of warrants held by non-employees are as follows:

	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants
Outstanding and exercisable as at 31 December 2013	**19,074,787**	**648,143**	**2,350,000**
Exercised	(981,504)	–	–
Outstanding and exercisable as at 30 June 2014	**18,093,283**	**648,143**	**2,350,000**
Exercised	(3,060,604)	–	–
Outstanding and exercisable as at 31 December 2014	**15,032,679**	**648,143**	**2,350,000**
Exercised	(14,437,903)	(648,143)	(2,350,000)
Outstanding and exercisable at 30 June 2015	**594,776**	**–**	**–**
Weighted average exercise price as at 30 June 2015	**$5.00**	**–**	**–**

	As at 30 June 2015	As at 30 June 2014	As at 31 December 2014
Weighted average remaining contractual life	0.5 years	1.5 year	1.0 years
Weighted average share price at date of exercise during the period	$10.00	$11.61	$11.25

16. Earnings per share

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

	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Profit for the period attributable to equity shareholders	92.6	104.9	229.3

	Number of shares	Number of shares	Number of shares
Basic weighted average number of shares	193,442,233	182,562,082	185,558,086
Dilutive effect of RSS	2,264,277	1,781,445	2,442,255
Dilutive effect of warrants	285,191	12,524,552	10,112,990
Diluted weighted average number of shares	**195,991,701**	**196,868,079**	**198,113,331**

Earnings per share	Six months 2015	Six months 2014	Twelve months 2014
Basic	$0.48	$0.57	$1.24
Diluted	$0.47	$0.53	$1.16

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.

17. Related party disclosures

Key management compensation

Remuneration for key management (the Group's Executive Directors and Non-Executive Directors) was as follows:

	Six months 2015 $m	Six months 2014 $m	Twelve months 2014 $m
Short-term compensation[(1)]	2.7	2.3	3.3
Equity based compensation	0.9	5.6	7.5
Directors' fees and expenses	1.0	1.2	2.2
Total	**4.6**	**9.1**	**13.0**

(1) 2014 includes a credit of $2.3 million relating to the decrease in the UK National Insurance contribution provision in respect of Richard Brindle's warrants. This is a result of the reduction in the Group's share price prior to the exercise of his warrants during 2014.

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, in the six months ended 30 June 2014 and the twelve months ended 31 December 2014. His retirement package also included a cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that had accrued on these RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within other reserves.

The Directors' fees and expenses includes $nil (30 June 2014 - $0.2 million; 31 December 2014 - $0.4 million) paid to significant shareholders. Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

Transactions with associates

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 2015 the Group recognised $6.8

million (30 June 2014 - $1.4 million; 31 December 2014 - $6.2 million) of service fees and profit commissions in other income in relation to this agreement.

During the first half of 2015, the Group committed an additional $4.0 million (30 June 2014 - $6.7 million; 31 December 2014 - $27.8 million) of capital to KHL. During the first half of 2015, KHL returned $26.8 million of capital to the Group (2014 - $nil).

During the first half of 2014, AHL returned $33.4 million (31 December 2014 - $33.5 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 (31 December 2014 - $12.2 million) of capital to the Group and SRL paid a final profit commission to the Group in the amount of $3.0 million.

Refer to note 11 for further details on the Group's investment in associates.

18. 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. During 2015, the Group issued new common shares to satisfy the cashless exercises of warrants in the amount of $4.1 million (30 June 2014 - $1.9 million; 31 December 2014 - $3.4 million). Refer to note 14 for further details.

19. 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 2014	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,009.5	117.3
Minimum required statutory capital and surplus	233.7	23.9

Interim unaudited statutory capital and surplus was as follows:

As at 30 June 2015	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,039.6	109.6
Minimum required statutory capital and surplus	107.5	23.9

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

The Group has sufficient capital to meet its FAL requirements of £149.6 million as at 30 June 2015 (30 June 2014 - £115.1 million; 31 December 2014 - £149.3 million).

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

20. Commitments

As at 30 June 2015 the Group has $50.0 million (30 June 2014 - $nil; 31 December 2014 - $nil) of unfunded commitments relating to potential investments in a credit facility fund.

21. Comparative information

Certain comparative figures have been re-presented to conform to the presentation adopted for 2015.

22. Subsequent events

Dividend

On 28 July 2015 the Board of Directors declared the payment of an interim ordinary dividend of $0.05 per common share (approximately £0.03 pence per common share) to shareholders of record on 28 August 2015, with a settlement date of 25 September 2015. The total dividend payable, including dividend equivalents, will be approximately $9.9 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.

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 2015 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 22. 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.

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 2015 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
London

Additional case reserves
Additional reserves deemed necessary by management

AFS
Available for sale

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

AGM
Annual General Meeting

AHL
Accordion Holdings Limited

AIM
A sub-market of the LSE

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

Board Of Directors
Unless otherwise stated refers to the LHL Board of Directors

Book value per share
Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding

BSX
Bermuda Stock Exchange

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

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

CEO
Chief Executive Officer

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

CUL
Cathedral Underwriting Limited

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 period attributable to shareholders by the weighted average number of common shares outstanding during the period 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 period attributable to shareholders by the weighted average number of common shares outstanding during the period, excluding treasury shares and shares held by the EBT

EBT
Lancashire Holdings Employee Benefit Trust

Excess of loss
Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

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

KCMMSL
KCM Marketing Services Limited

KHL
Kinesis Holdings I Limited

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

KRL
Kinesis Reinsurance I Limited

LHL
Lancashire Holdings Limited

LICL
Lancashire Insurance Company Limited

Lloyd's
The Society of Lloyd's

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

MBRT
Multi-beneficiary reinsurance trust

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

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

OTC
Over the counter

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

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

U.S.
United States of America

Note regarding forward-looking statements

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "PROJECTS", "FORECASTS", "GUIDANCE", "INTENDS", "EXPECTS", "ESTIMATES", "PREDICTS", "MAY", "CAN", "LIKELY", "WILL", "SEEKS", "SHOULD", OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP'S FINANCIAL POSITION, LIQUIDITY, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S INSURANCE BUSINESS) ARE FORWARD LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP, THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP'S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING 'SOFT' AS WELL AS 'HARD' MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; AND ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.