LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 3.2% IN Q2 2016 AND 7.1% YEAR TO DATE
COMBINED RATIO OF 80.6% IN Q2 2016, 76.2% YEAR TO DATE
INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $6.40 AS AT 30 JUNE 2016

27 July 2016
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2016 and the six months ended 30 June 2016.

Financial highlights

	30 June 2016	30 June 2015
Fully converted book value per share	**$6.40**	**$6.66**
Return on equity[1] – Q2	**3.2%**	**2.3%[2]**
Return on equity[1]– YTD	**7.1%**	**6.6%[2]**
Return on tangible equity[3] – Q2	**3.5%**	**2.3%**
Return on tangible equity[3] – YTD	**8.2%**	**4.6%**
Operating return on average equity – Q2	**2.0%**	**2.9%**
Operating return on average equity – YTD	**4.6%**	**6.4%**
Interim dividends per common share[4]	**$0.05**	**$0.05**

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on equity including warrant exercises was 2.2% for the second quarter of 2015 and 4.5% for the first six months of 2015. All remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on the 2016 return on equity.
[3] Return on equity excluding goodwill and other intangible assets.
[4] See "Dividends" below for Record Date and Dividend Payment Date.

Financial highlights:

	Three months ended		Six months ended	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Highlights ($m)				
Gross premiums written	199.8	179.3	430.6	423.6
Net premiums written	157.0	155.1	278.6	284.3
Profit before tax	30.1	37.1	56.6	88.6
Profit after tax[1]	31.5	38.9	59.8	92.6
Comprehensive income[1]	38.6	31.8	81.7	94.5
Net operating profit[1]	25.6	38.4	58.0	90.5
Per share data				
Diluted earnings per share	$0.16	$0.19	$0.30	$0.47
Diluted earnings per share – operating	$0.13	$0.19	$0.29	$0.46
Financial ratios				
Total investment return including internal currency hedging	0.9%	–	1.6%	1.0%
Total investment return excluding internal currency hedging	0.8%	0.1%	1.6%	0.8%
Net loss ratio	28.6%	34.9%	29.1%	32.0%
Combined ratio	80.6%	78.2%	76.2%	75.1%
Accident year loss ratio	62.7%	59.4%	51.6%	52.2%

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

Alex Maloney, Group Chief Executive Officer, commented:

"Our RoE of 3.2% for the second quarter and 7.1% for the half year represent an excellent result achieved during challenging times. I have previously talked about our commitment to maintain a strong core book of business serving the needs of our valued clients and their brokers, whilst also bringing down overall risk levels in line with our view of the underwriting opportunity. These results are clear evidence that our stated model is working.

At a time when premium rates and insurance policy terms and conditions are under pressure, our model has helped us not only to deliver the underwriting service which is expected of us but also to insulate our balance sheet against a string of small to medium sized natural catastrophe and specialty market losses. We are starting to see evidence of the insurance industry sustaining a series of net losses during the first half of 2016. Against this background it is reassuring to note that Lancashire's reinsurance purchasing strategy has enabled the Group to reduce our net liabilities by about $20 million when compared to the reinsurance programme purchased in 2015.

On the investment side the return of 0.9% for the quarter is a strong return, proving our strategy remains appropriate for our business. Our conservative approach to our investments allows us to maintain our focus on the fundamentals of good underwriting and risk management.

These results are the product of a genuine team effort across the whole group, and I would like to thank all our employees for their continuing hard work. It has also been rewarding for me to have seen the recent fruits of restructuring within our Lloyd's business, where (subject to completion of the usual regulatory approvals) we have been able to recruit not only new underwriters during the quarter but have also welcomed Heather McKinlay as our new Cathedral CFO and member of the Group Executive Committee, Marion Madden as the new Cathedral Underwriting Limited MD and also a member of the Group Executive Committee, as well as Nick Davenport and Lance Gibbins who will serve as non-executive directors on our Cathedral managing agency board. We have also recently welcomed Rob Lusardi as a non-executive on the Lancashire Holdings Limited Board. Our ability to recruit such strong individuals is a testament to our nimble strategy and our commitment to foster a shared culture of excellence across the whole Lancashire group.

Despite these testing times I am determined to ensure that the Lancashire group remains a great business to work for, capable of delivering sector leading returns across the cycle."

Elaine Whelan, Group Chief Financial Officer, commented:

"While there were some significant industry losses this quarter in our areas of underwriting expertise, we have avoided most of these and produced a strong result with a return on equity of 3.2%. While we have exposure to the Fort McMurray wildfires and some of the major energy market losses, they were well contained in our reinsurance programme. We were also fortunate to have some further favourable development on our prior year reserves, giving us an overall net loss ratio of 28.6%.

Our investment return for the quarter of 0.9% is particularly pleasing given the heightened volatility in the markets. We continue to position our portfolio to protect the downside.

Our first half performance again demonstrates our ability to manage the cycle and support our core clients. However, while current market conditions continue, we are likely to return our earnings to shareholders at the end of the year."

Renewal Price Index for major classes

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

RPI Lancashire (excluding Lloyd's segment)

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

RPI (Lloyd's segment)

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

Underwriting results

Gross premiums written

	Q2				YTD			
	2016 $m	**2015 $m**	**Change $m**	**Change %**	**2016 $m**	**2015 $m**	**Change $m**	**Change %**
Property	62.1	51.8	10.3	19.9	150.7	128.6	22.1	17.2
Energy	57.5	41.5	16.0	38.6	88.3	78.1	10.2	13.1
Marine	11.2	11.4	(0.2)	(1.8)	27.5	33.7	(6.2)	(18.4)
Aviation	5.8	6.7	(0.9)	(13.4)	17.2	17.7	(0.5)	(2.8)
Lloyd's	63.2	67.9	(4.7)	(6.9)	146.9	165.5	(18.6)	(11.2)
Total	**199.8**	**179.3**	**20.5**	**11.4**	**430.6**	**423.6**	**7.0**	**1.7**

Gross premiums written increased by 11.4% in the second quarter of 2016 compared to the same period in 2015. In 2016 to date, gross premiums written increased by 1.7% compared to the first six months of 2015. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 19.9% for the second quarter of 2016 compared to the same period in 2015 and increased by 17.2% in the first six months of 2016 compared to the first six months of 2015. The majority of the quarterly and year to date increase was driven by new business in the political risk class. Business flow in the political risk class is generally less predictable than other classes of business due to the lead time and specific nature of each deal. While property catastrophe rates continued to experience pressure, the majority of the book renewed and some new business was added. The small reduction in the terrorism class was mainly due to the impact of multi-year policies written in prior years not yet due to renew.

Energy gross premiums written increased by 38.6% for the second quarter of 2016 compared to the same period in 2015 and increased by 13.1% in the first six months of 2016 compared to the first six months of 2015. The Gulf of Mexico book was responsible for most of the increase in both the quarter and the year to date. Some new business was added in this class, but the vast majority of the increase is driven by the timing impact of multi-year deals written in 2014 plus the cancellation and replacement of certain contracts. Year on year, the variability in the Gulf of Mexico gross premiums written has a less significant impact on gross premiums earned for that class. The worldwide offshore book continued to experience price and exposure reductions due to the relatively low oil price, but the renewal of non-annual deals largely offset these reductions.

Marine gross premiums written decreased by 1.8% for the second quarter of 2016 compared to the same period in 2015 and decreased by 18.4% in the first six months of 2016 compared to the first six months of 2015. The small reduction in the quarter is due to continuing pricing pressure as a result of over-capacity in the market. The majority of the year to date decrease is driven by the timing of non-annual renewals together with a reduction in prior underwriting year risk-attaching business due to changes in the underlying exposure.

Aviation gross premiums written decreased by 13.4% for the second quarter of 2016 compared to the same period in 2015 and decreased by 2.8% in the first six months of 2016 compared to the first six months of 2015. The second quarter is not a major renewal period for the aviation segment. The small dollar decrease in the quarter is due to reductions in prior underwriting year risk-attaching business in the AV52 class due to changes in underlying exposure.

In the Lloyd's segment gross premiums written decreased by 6.9% for the second quarter of 2016 compared to the same period in 2015 and decreased by 11.2% in the first six months of 2016 compared to the first six months of 2015. While there were reductions in most lines of business, for both the quarter and year to date, the majority of the decrease was driven by the property, energy and marine books, where rates continue to come under pressure due to over-capacity in the market, slightly offset by reinstatement premiums.

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Ceded reinsurance premiums increased by $18.6 million, or 76.9%, for the quarter, and increased by $12.7 million, or 9.1%, for the six months ended 30 June 2016, in each case compared to the same periods in 2015. Favourable conditions in the reinsurance market have generally allowed both Lancashire and Cathedral to buy more reinsurance limit, add new layers and attach at lower loss levels for around the same outlay. The increased spend for the quarter and year to date is largely due to cessions to various outwards facilities, facultative cover purchased and reinstatement premiums.

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Net premiums earned as a proportion of net premiums written was 72.2% in the second quarter of 2016 compared to 92.5% for the same period in 2015 and 89.9% in the six months to 30 June 2016 compared to 104.7% in the same period in 2015. The reduced earnings percentages are due to an increase in longer tenor business written, the timing of cancellations and replacements in the Gulf of Mexico book, plus increased reinsurance spend.

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The Group's net loss ratio for the second quarter of 2016 was 28.6% compared to 34.9% for the same period in 2015 and 29.1% for the six months ended 30 June 2016 compared to 32.0% for the same period in 2015. The accident year loss ratio for the second quarter of 2016, including the impact of foreign exchange revaluations, was 62.7% compared to 59.4% for the same period in 2015 and 51.6% for the six months ended 30 June 2016 compared to 52.2% for the same period in 2015. There have been no significant net losses in either the quarter or the year to date in 2016 or 2015. The first quarters of both years included some mid-sized energy losses. That trend continued in the second quarter of 2015, while the second quarter of 2016 included losses for the Fort McMurray wildfires plus some development on an energy loss recorded in the first quarter.

Prior year favourable development for the second quarter of 2016 was $39.3 million, compared to favourable development of $35.2 million for the second quarter of 2015. Favourable development was $57.0 million for the six months to 30 June 2016, compared to favourable development of $61.2 million for the same period in 2015. The favourable development in all periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The first quarter of 2015 also included a recovery on our 2011 Thai flood loss on the settlement of a claim.

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

	Q2		**YTD**	
	2016	**2015**	**2016**	**2015**
	$m	**$m**	**$m**	**$m**
Property	9.6	13.3	21.6	27.7
Energy	10.8	8.6	17.7	17.4
Marine	10.1	5.5	9.3	7.1
Aviation	1.0	0.8	2.4	(0.2)
Lloyd's	7.8	7.0	6.0	9.2
Total	**39.3**	**35.2**	**57.0**	**61.2**

Note: Positive numbers denote favourable development.

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

	Six months ended 30 June 2016 $m	Six months ended 30 June 2015 $m
2006 accident year	0.1	0.7
2007 accident year	0.2	0.9
2008 accident year	0.8	(2.6)
2009 accident year	0.5	3.2
2010 accident year	1.4	(4.5)
2011 accident year	8.3	19.7
2012 accident year	4.0	1.9
2013 accident year	5.1	20.2
2014 accident year	10.2	21.7
2015 accident year	26.4	–
Total	**57.0**	**61.2**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 38.1% at 30 June 2016 compared to 32.0% at 30 June 2015.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $8.5 million for the second quarter of 2016, an increase of 21.4% from the second quarter of 2015. Net investment income was $16.0 million for the first six months of 2016, an increase of 9.6% compared to the same period in 2015. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of $17.0 million for the second quarter of 2016 compared to a loss of $0.3 million for the second quarter of 2015, and a gain of $30.0 million for the first six months of 2016 compared to a gain of $21.1 million for the corresponding period in 2015. With the decline in treasury yields during the quarter, the Group's fixed maturity portfolios generated strong returns. There were also positive returns in the Group's hedge fund, equity and bank loan portfolios. In the corresponding period of 2015, returns were depressed by rising treasury yields, causing flat to slightly negative returns in the standard fixed maturity portfolios, offset somewhat by positive returns in the bank loan portfolio. For the year to date, the investment return resulted primarily from positive returns on our fixed maturity portfolio driven by the significant decline in treasury yields, and strong returns in our bank loan portfolio. During the first six months of 2015, returns were generated mainly in the first quarter when returns were bolstered by strong performance in the hedge fund and bank loan portfolios.

The corporate bond allocation represented 31.1% of managed invested assets at 30 June 2016 compared to 30.5% at 30 June 2015.

The managed portfolio was as follows:

	As at 30 June 2016	As at 31 December 2015	As at 30 June 2015
Fixed maturity securities	80.8%	81.6%	82.0%
Cash and cash equivalents	11.7%	9.6%	9.1%
Hedge funds	6.8%	8.0%	8.1%
Equity securities	0.7%	0.8%	0.8%
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 30 June 2016	As at 31 December 2015	As at 30 June 2015
Duration	1.7 years	1.5 years	1.6 years
Credit quality	AA-	AA-	AA-
Book yield	1.7%	1.6%	1.5%
Market yield	1.5%	1.9%	1.5%

Lancashire Third Party Capital Management

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

	Q2 2016 $m	Q2 2015 $m	YTD 2016 $m	YTD 2015 $m
Kinesis underwriting fees	0.6	0.8	1.1	1.5
Kinesis profit commission	1.4	0.2	3.2	5.3
Lloyd's managing agency fees & profit commission	2.6	2.6	2.9	3.0
Total other income	**4.6**	**3.6**	**7.2**	**9.8**
Share of profit of associate	0.4	0.9	1.7	1.6
Total third party capital managed income	**5.0**	**4.5**	**8.9**	**11.4**

The lower Kinesis profit commission during the first half of 2016 compared to the first half of 2015 is due to the timing of confirmation of loss quantum and the resulting retention of some collateral held. The share of profit of associate reflects Lancashire's 10% equity interest in the Kinesis vehicle.

Other operating expenses

Other operating expenses consist of the following items:

	Q2 2016 $m	Q2 2015 $m	YTD 2016 $m	YTD 2015 $m
Employee costs	15.6	14.2	32.1	29.0
Other operating expenses	9.9	9.8	19.1	21.8
Total	**25.5**	**24.0**	**51.2**	**50.8**

Employee remuneration costs for the second quarter and first six months of 2016 were $1.4 million and $3.1 million respectively higher than the same periods in 2015. A slight increase in headcount and variability around incentive pay led to increased salaries and benefits costs for the quarter while the year to date also includes costs relating to the departure of the previous Active Underwriter of Cathedral reported in the first quarter.

Other operating expenses for the second quarter of 2016 compared to the same period in the prior year have remained fairly flat. For the first six months of 2016 compared to the same period in the prior year expenses are lower mainly due to lower consulting costs and IT project expenses.

Equity based compensation

Equity based compensation was $4.8 million in the second quarter of 2016 compared to $0.4 million in the same period last year and $8.4 million for the first six months of 2016 compared to $4.8 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.

Capital

At 30 June 2016, total capital available to Lancashire was $1.612 billion, comprising shareholders' equity of $1.289 billion and $322.9 million of long-term debt. Tangible capital was $1.458 billion. Leverage was 20.0% on total capital and 22.2% on total tangible capital. Total capital and total tangible capital at 30 June 2015 were $1.656 billion and $1.502 billion respectively.

Dividends

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

Lancashire announces that its Board of Directors has declared an interim dividend for 2016 of $0.05 per common share (approximately (£0.04) 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 31 August 2016 (the "Dividend Payment Date") to shareholders of record on 5 August 2016 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

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

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

Financial information

Further details of our 2016 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Prior to the end of July 2016, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2016 via our website at www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00am EDT on Wednesday, 27 July 2016. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44(0)20 3427 1909 / +1 212 444 0895 with the confirmation code 9492181. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A telephone replay facility will be available for 30 days. The dial in number for the replay facility is +44(0)20 3427 0598 / +1 347 366 9565 with replay passcode 9492181. A webcast replay facility will also be accessible at www.lancashiregroup.com

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About Lancashire

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

	Financial Strength Rating (1)	Financial Strength Outlook(1)	Long Term Issuer Rating (2)
A.M. Best	A (Excellent)	Stable	bbb
Standard & Poor's	A-	Positive	BBB
Moody's	A3	Stable	Baa2

(1)Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

(2) Long Term Issuer Rating applies to Lancashire Holdings Limited.

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

Lancashire has capital in excess of $1.5 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

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

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

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

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

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

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

This disclosure may contain inside information of a price sensitive nature, as more particularly defined in the Market Abuse Regulation. The Lancashire Group however, acknowledges that matters of price sensitivity are a matter of degree.

NOTE REGARDING RPI METHODOLOGY

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL METHODOLOGY THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI WRITTEN BY THE LANCASHIRE COMPANIES IN THE PROPERTY, ENERGY, MARINE AND AVIATION SEGMENTS IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI METHODOLOGY, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN

NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS “BELIEVES”, “ANTICIPATES”, “PLANS”, “PROJECTS”, “FORECASTS”, “GUIDANCE”, “INTENDS”, “EXPECTS”, “ESTIMATES”, “PREDICTS”, “MAY”, “CAN”, “LIKELY”, “WILL”, “SEEKS”, “SHOULD”, OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP’S FINANCIAL POSITION, LIQUIDITY, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP’S INSURANCE BUSINESS) ARE FORWARD LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

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

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

Consolidated statement of comprehensive income
(Unaudited)

	Q2 2016 $m	Q2 2015 $m	YTD 2016 $m	YTD 2015 $m
Gross premiums written	199.8	179.3	430.6	423.6
Outwards reinsurance premiums	(42.8)	(24.2)	(152.0)	(139.3)
Net premiums written	**157.0**	**155.1**	**278.6**	**284.3**
Change in unearned premiums	(38.2)	0.1	(97.1)	(51.1)
Change in unearned premiums on premiums ceded	(5.4)	(11.8)	69.1	64.4
Net premiums earned	**113.4**	**143.4**	**250.6**	**297.6**
Net investment income	8.5	7.0	16.0	14.6
Net other investment income (losses)	0.9	(0.8)	(0.5)	4.2
Net realised gains (losses) and impairments	0.5	0.6	(7.4)	0.4
Share of profit of associate	0.4	0.9	1.7	1.6
Other income	4.6	3.6	7.2	9.8
Net foreign exchange gains (losses)	3.2	(2.1)	2.7	(3.0)
Total net revenue	**131.5**	**152.6**	**270.3**	**325.2**
Insurance losses and loss adjustment expenses	87.8	56.3	134.9	115.2
Insurance losses and loss adjustment expenses recoverable	(55.4)	(6.3)	(61.9)	(20.1)
Net insurance acquisition expenses	33.5	38.2	67.0	77.4
Equity based compensation	4.8	0.4	8.4	4.8
Other operating expenses	25.5	24.0	51.2	50.8
Total expenses	**96.2**	**112.6**	**199.6**	**228.1**
Results of operating activities	**35.3**	**40.0**	**70.7**	**97.1**
Financing costs	5.2	2.9	14.1	8.5
Profit before tax	**30.1**	**37.1**	**56.6**	**88.6**
Tax credit	1.4	1.8	3.3	4.3
Profit after tax	**31.5**	**38.9**	**59.9**	**92.9**
Non-controlling interests	-	-	(0.1)	(0.3)
Profit after tax attributable to Lancashire	**31.5**	**38.9**	**59.8**	**92.6**
Net change in unrealised gains/losses on investments	7.3	(7.4)	22.5	1.8
Tax provision on net change in unrealised gains/losses on investments	(0.2)	0.3	(0.6)	0.1
Other comprehensive income (loss)	**7.1**	**(7.1)**	**21.9**	**1.9**
Total comprehensive income attributable to Lancashire	**38.6**	**31.8**	**81.7**	**94.5**
Net loss ratio	28.6%	34.9%	29.1%	32.0%
Net acquisition cost ratio	29.5%	26.6%	26.7%	26.0%
Administrative expense ratio	22.5%	16.7%	20.4%	17.1%
Combined ratio	**80.6%**	**78.2%**	**76.2%**	**75.1%**
Basic earnings per share	$0.16	$0.20	$0.30	$0.48
Diluted earnings per share	$0.16	$0.19	$0.30	$0.47
Change in fully converted book value per share	3.2%	2.3%*	7.1%	6.6%*

* Return on equity including warrant exercises was 2.2% for the second quarter of 2015 and 4.5% for the first six months of 2015, all remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity.

Consolidated balance sheet
(Unaudited)

	As at 30 June 2016 $m	As at 30 June 2015 $m	As at 31 Dec 2015 $m
Assets			
Cash and cash equivalents	325.8	303.0	291.8
Accrued interest receivable	6.7	6.9	6.5
Investments	1,784.8	1,964.8	1,773.3
Inwards premiums receivable from insureds and cedants	369.9	380.3	253.7
Reinsurance assets			
-Unearned premiums on premiums ceded	99.3	89.1	30.2
-Reinsurance recoveries	139.5	95.9	83.9
-Other receivables	13.3	8.4	2.7
Other receivables	47.5	24.9	37.8
Investment in associate	24.8	31.5	47.5
Property, plant and equipment	6.2	8.1	7.2
Deferred acquisition costs	104.7	108.5	87.2
Intangible assets	153.8	153.8	153.8
Total assets	**3,076.3**	**3,175.2**	**2,775.6**
Liabilities			
Insurance contracts			
-Losses and loss adjustment expenses	712.1	746.6	671.0
-Unearned premiums	496.3	530.2	399.2
-Other payables	43.1	46.5	36.2
Amounts payable to reinsurers	92.2	74.1	26.6
Deferred acquisition costs ceded	1.8	0.8	0.3
Other payables	87.4	83.2	67.0
Corporation tax payable	0.1	4.2	1.8
Deferred tax liability	23.4	28.5	25.6
Interest rate swap	8.4	4.3	4.8
Long-term debt	322.9	322.8	322.3
Total liabilities	**1,787.7**	**1,841.2**	**1,554.8**
Shareholders' equity			
Share capital	100.7	100.2	100.7
Own shares	(26.4)	(25.8)	(30.4)
Other reserves	883.1	866.4	880.8
Accumulated other comprehensive income (loss)	11.4	2.7	(10.5)
Retained earnings	319.7	389.7	279.7
Total shareholders' equity attributable to equity shareholders of LHL	**1,288.5**	**1,333.2**	**1,220.3**
Non-controlling interest	0.1	0.8	0.5
Total shareholders' equity	**1,288.6**	**1,334.0**	**1,220.8**
Total liabilities and shareholders' equity	**3,076.3**	**3,175.2**	**2,775.6**
Basic book value per share	$6.49	$6.74	$6.16
Fully converted book value per share	$6.40	$6.66	$6.07

Consolidated statements of cash flows
(Unaudited)

	Six Months 2016 $m	Six Months 2015 $m	Twelve Months 2015 $m
Cash flows from operating activities			
Profit before tax	56.6	88.6	171.7
Tax (paid) refunded	(1.3)	2.7	4.4
Depreciation	1.1	1.0	1.9
Interest expense on long-term debt	8.3	7.5	15.1
Interest and dividend income	(19.1)	(20.4)	(40.9)
Net amortisation of fixed maturity securities	2.5	4.3	8.1
Equity based compensation	8.4	4.8	15.8
Foreign exchange (gains) losses	(0.1)	12.8	10.8
Share of profit of associate	(1.7)	(1.6)	(4.1)
Net other investment losses (income)	0.5	(4.2)	1.3
Net realised losses (gains) and impairments	7.4	(0.4)	2.8
Net unrealised losses (gains) on interest rate swaps	3.6	(0.6)	(0.1)
Changes in operational assets and liabilities			
-Insurance and reinsurance contracts	(62.1)	(32.9)	(71.0)
-Other assets and liabilities	12.5	9.0	(17.7)
Net cash flows from operating activities	**16.6**	**70.6**	**98.1**
Cash flows from investing activities			
Interest and dividends received	18.9	21.2	42.1
Net purchase of property, plant and equipment	(0.1)	-	-
Investment in associate	24.4	22.8	9.3
Purchase of investments	(607.4)	(548.5)	(990.8)
Proceeds on sale of investments	609.5	567.8	1,173.5
Net cash flows from investing activities	**45.3**	**63.3**	**234.1**
Cash flows used in financing activities			
Interest paid	(7.8)	(7.6)	(15.2)
Dividends paid	(19.8)	(119.0)	(317.5)
Dividend paid to minority interest holders	(0.5)	–	(0.6)
Distributions by trust	(2.1)	(4.0)	(4.7)
Net cash flows used in financing activities	**(30.2)**	**(130.6)**	**(338.0)**
Net increase (decrease) in cash and cash equivalents	**31.7**	**3.3**	**(5.8)**
Cash and cash equivalents at the beginning of year	291.8	303.5	303.5
Effect of exchange rate fluctuations on cash and cash equivalents	2.3	(3.8)	(5.9)
Cash and cash equivalents at end of year	**325.8**	**303.0**	**291.8**