lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2016

Contents

Financial highlights

	30 Jun 2016	30 Jun 2015	31 Dec 2015
Fully converted book value per share	$6.40	$6.66	$6.07
Return on equity - ytd	7.1%	6.6%*	13.5%*
Return on tangible equity - ytd	8.2%	4.6%	11.8%
Operating return on average equity - ytd	4.6%	6.4%	12.0%

*Return on equity including warrant exercises was 4.5 per cent for the first six months of 2015 and 10.9 per cent for the year ended 31 December 2015. All remaining outstanding warrants were exercised during 2015 and there is therefore no impact of warrants on 2016 return on equity.

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015	Twelve months ended 31 Dec 2015
Highlights ($m)			
Gross premiums written	430.6	423.6	641.1
Net premiums written	278.6	284.3	481.7
Profit before tax	56.6	88.6	171.7
Profit after tax*	59.8	92.6	181.1
Comprehensive income*	81.7	94.5	169.8
Net operating profit*	58.0	90.5	173.4
Per share data			
Diluted earnings per share	$0.30	$0.47	$0.91
Diluted earnings per share - operating	$0.29	$0.46	$0.87
Financial ratios			
Total investment return including internal currency hedging	1.6%	1.0%	0.7%
Total investment return excluding internal currency hedging	1.6%	0.8%	0.2%
Net loss ratio	29.1%	32.0%	27.5%
Combined ratio	76.2%	75.1%	72.1%
Accident year loss ratio	51.6%	52.2%	46.0%

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

Alex Maloney, Group Chief Executive Officer, commented:

"Our RoE of 7.1 per cent for the half year represents an excellent result achieved during challenging times. I have previously talked about our commitment to maintaining 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 its net liabilities by about $20.0 million when compared to the reinsurance programme purchased in 2015.

On the investment side the return of 1.6% for the first six months of 2016 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 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 during the first half of the year in our areas of underwriting expertise, we have avoided most of these and produced a strong result with a return on equity of 7.1 per cent. 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 29.1 per cent.

Our investment return for the year to date of 1.6 per cent 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 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. 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 2015, with our Lloyd's segment shown separately in order to aid comparability:

RPI Lancashire (excluding Lloyd's segment) **Class**	**30 Jun 2016** **%**
Aviation (AV52)	90
Gulf of Mexico energy	94
Energy offshore worldwide	87
Marine	88
Property retrocession and reinsurance	92
Terrorism	87
Lancashire (excluding Lloyd's segment)	**90**

RPI Lloyd's segment **Class**	**30 Jun 2016** **%**
Aviation	97
Energy	89
Marine	97
Property retrocession and reinsurance	94
Terrorism	98
Lloyd's segment	**94**

Underwriting results

Gross premiums written	Six months ended 30 Jun 2016 $m	Six months ended 30 Jun 2015 $m	Change $m	Change %
Property	150.7	128.6	22.1	17.2
Energy	88.3	78.1	10.2	13.1
Marine	27.5	33.7	(6.2)	(18.4)
Aviation	17.2	17.7	(0.5)	(2.8)
Lloyd’s	146.9	165.5	(18.6)	(11.2)
Total	**430.6**	**423.6**	**7.0**	**1.7**

Gross premiums written increased by 1.7 per cent in the first six months of 2016 compared to the same period in 2015. The Group’s five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 17.2 per cent in the first six months of 2016 compared to the first six months of 2015. The majority of the 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 13.1 per cent 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 for 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 18.4 per cent in the first six months of 2016 compared to the first six months of 2015. The 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 2.8 per cent in the first six months of 2016 compared to the first six months of 2015. The decrease is mainly due to the timing of satellite launches.

In the Lloyd’s segment gross premiums written decreased by 11.2 per cent for the first six months of 2016 compared to the same period in 2015. While there were reductions in most lines of business, 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 premium income.

Ceded reinsurance premiums increased by $12.7 million, or 9.1 per cent, for the six-month period to 30 June 2016 compared to the same period 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 year is largely due to additional cessions to various outwards facilities, facultative cover purchased and reinstatement premiums.

Net premiums earned as a proportion of net premiums written was 89.9 per cent in the six months to 30 June 2016, compared to 104.7 per cent in the same period in 2015. The reduced earnings percentage 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.

The Group's net loss ratio was 29.1 per cent for the six month period to 30 June 2016 compared to 32.0 per cent for the same period in 2015. The accident year loss ratio, including the impact of foreign exchange revaluations, was 51.6 per cent compared to 52.2 per cent for the same period in 2015. There were no significant net losses reported in the first half of 2016 other than a few mid-sized energy claims and losses for the Fort McMurray wildfires. There were no significant losses reported in the first half of 2015 other than two mid-sized energy losses and two-mid sized satellite losses.

Prior year favourable development was $57.0 million for the six months to 30 June 2016. This compares 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 lack of reported claims. The first half 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 prior years' loss development by class, excluding the impact of foreign exchange revaluations:

	Six months ended 30 Jun 2016 $m	**Six months ended 30 Jun 2015 $m**
Property	21.6	27.7
Energy	17.7	17.4
Marine	9.3	7.1
Aviation	2.4	(0.2)
Lloyd's	6.0	9.2
Total	**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 the first half of 2016 and 2015:

	Six months ended 30 Jun 2016 $m	Six months ended 30 Jun 2015 $m
2006 accident year and prior	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 per cent at 30 June 2016 compared to 32.0 per cent at 30 June 2015.

Investments

Net investment income, was $16.0 million for the first half of 2016, an increase of 9.6 per cent compared to the first half of 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 $30.0 million for the first half of 2016 compared to $21.1 million for the first half of 2015. The investment return for the first half of the year resulted primarily from positive returns on our fixed maturity portfolio driven by the significant decline in treasury yields and strong returns on our bank loan portfolio. During the first half of 2015, returns were bolstered by strong performance in the hedge fund and bank loan portfolios.

The corporate bond allocation represents 31.1 per cent of managed invested assets at 30 June 2016 compared to 30.5 per cent at 30 June 2015.

The managed portfolio was invested as follows:

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

Key investment portfolio statistics are:

	30 Jun 2016	30 Jun 2015	31 Dec 2015
Duration	1.7 years	1.6 years	1.5 years
Credit quality	AA-	AA-	AA-
Book yield	1.7%	1.5%	1.6%
Market yield	1.5%	1.5%	1.9%

Lancashire Third Party Capital Management

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

	Six months ended 30 Jun 2016 $m	Six months ended 30 Jun 2015 $m
Kinesis underwriting fees	1.1	1.5
Kinesis profit commission	3.2	5.3
Lloyd's managing agency fees and profit commission	2.9	3.0
Total	**7.2**	**9.8**
Share of profit of associate	1.7	1.6
Total third party capital managed income	**8.9**	**11.4**

The lower Kinesis proft commission during the first six months of 2016 compared to the first six months 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 per cent equity interest in the Kinesis vehicle.

Other operating expenses

Other operating expenses consist of the following items:

	Six months ended 30 Jun 2016 $m	Six months ended 30 Jun 2015 $m
Employee costs	32.1	29.0
Other operating expenses	19.1	21.8
Total	**51.2**	**50.8**

Employee remuneration costs for the first six months of 2016 were $3.1 million higher compared to the same period in 2015. Costs relating to the departure of the previous Active Underwriter of Cathedral in the first quarter of 2016, plus a slight increase in headcount and variability around incentive pay led to increased salaries and benefits costs for the period.

Other operating expenses were lower in the first six months of 2016 compared to the same period in the prior year mainly due to lower consulting costs and lower IT project expenses.

Equity based compensation

Equity based compensation was $8.4 million for the 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 per cent on total capital and 22.2 per cent 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 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.

Ratings

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)	Long Term Issuer Rating (2)	Outlook
A.M. Best	A (Excellent)	bbb	Stable
S&P	A-	BBB	Positive
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 2016

	Notes	Six months 2016 $m	Six months 2015 $m	Twelve months 2015 $m
Gross premiums written	2	430.6	423.6	641.1
Outwards reinsurance premiums	2	(152.0)	(139.3)	(159.4)
Net premiums written		**278.6**	**284.3**	**481.7**
Change in unearned premiums	2	(97.1)	(51.1)	79.9
Change in unearned premiums on premiums ceded	2	69.1	64.4	5.5
Net premiums earned		**250.6**	**297.6**	**567.1**
Net investment income	3	16.0	14.6	29.8
Net other investment (losses) income	3	(0.5)	4.2	(1.3)
Net realised (losses) gains and impairments	3	(7.4)	0.4	(2.8)
Share of profit of associate		1.7	1.6	4.1
Other income		7.2	9.8	19.9
Net foreign exchange gains (losses)		2.7	(3.0)	(2.4)
Total net revenue		**270.3**	**325.2**	**614.4**
Insurance losses and loss adjustment expenses	2, 6	134.9	115.2	177.5
Insurance losses and loss adjustment expenses recoverable	2, 6	(61.9)	(20.1)	(21.8)
Net insurance losses		**73.0**	**95.1**	**155.7**
Insurance acquisition expenses	2	68.3	78.2	148.2
Insurance acquisition expenses ceded	2	(1.3)	(0.8)	(2.0)
Other operating expenses		51.2	50.8	106.6
Equity based compensation		8.4	4.8	15.8
Total expenses		**199.6**	**228.1**	**424.3**
Results of operating activities		**70.7**	**97.1**	**190.1**
Financing costs		14.1	8.5	18.4
Profit before tax		**56.6**	**88.6**	**171.7**
Tax credit	4	3.3	4.3	10.0
Profit after tax		**59.9**	**92.9**	**181.7**
Profit for the period attributable to:				
Equity shareholders of LHL		59.8	92.6	181.1
Non-controlling interests		0.1	0.3	0.6
Profit for the period		**59.9**	**92.9**	**181.7**
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods				
Net change in unrealised gains / losses on investments	3, 5	22.5	1.8	(11.6)
Tax provision on net change in unrealised gains / losses on investments	4, 5	(0.6)	0.1	0.3
Other comprehensive income (loss)		**21.9**	**1.9**	**(11.3)**
Total comprehensive income for the period		**81.8**	**94.8**	**170.4**
Total comprehensive income attributable to:				
Equity shareholders of LHL		81.7	94.5	169.8
Non-controlling interests		0.1	0.3	0.6
Total comprehensive income for the period		**81.8**	**94.8**	**170.4**
Earnings per share				
Basic	11	$0.30	$0.48	$0.93
Diluted	11	$0.30	$0.47	$0.91

Condensed interim consolidated balance sheet

As at 30 June 2016

	Notes	30 Jun 2016 $m	30 Jun 2015 $m	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	5	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	6	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	8	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	6	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	7	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	10	100.7	100.2	100.7
Own shares	10	(26.4)	(25.8)	(30.4)
Other reserves		883.1	866.4	880.8
Accumulated other comprehensive income (loss)	5	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 interests		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**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 26 July 2016 and signed on its behalf by:

PETER CLARKE
DIRECTOR/CHAIRMAN

ELAINE WHELAN
DIRECTOR/CHIEF FINANCIAL OFFICER

Condensed interim consolidated statement of changes in shareholders' equity

For the six months ended 30 June 2016

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other compre-hensive income (loss) $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		–	–	–	1.9	92.6	94.5	0.3	94.8
Distributed by trust	10	–	10.7	(14.7)	–	–	(4.0)	–	(4.0)
Dividends on common shares	10	–	–	–	–	(118.1)	(118.1)	–	(118.1)
Dividend equivalents on warrants	10	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Warrant exercises	10	4.1	6.8	(10.9)	–	–	–	–	–
Equity based compensation - tax	4,7	–	–	0.1	–	–	0.1	–	0.1
Equity based compensation - expense		–	–	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**
Total comprehensive (loss) income for the period		–			(13.2)	88.5	75.3	0.3	75.6
Shares purchased by trust	10	0.5	(9.3)	8.8	–	–	–	–	–
Distributed by trust	10	–	1.8	(2.5)	–	–	(0.7)	–	(0.7)
Dividends on common shares	10	–	–	–	–	(197.9)	(197.9)	–	(197.9)
Dividend equivalents on warrants	10	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Dividends paid to minority interest holders	12	–	–	–	–	–	–	(0.6)	(0.6)
Warrant exercises	10	–	2.9	(2.9)	–	–	–	–	–
Equity based compensation - expense		–	–	11.0	–	–	11.0	–	11.0
Balance as at 31 December 2015		**100.7**	**(30.4)**	**880.8**	**(10.5)**	**279.7**	**1,220.3**	**0.5**	**1,220.8**

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

For the six months ended 30 June 2016

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other compre-hensive income (loss) $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 2015		**100.7**	**(30.4)**	**880.8**	**(10.5)**	**279.7**	**1,220.3**	**0.5**	**1,220.8**
Total comprehensive income for the period		–	–	–	21.9	59.8	81.7	0.1	81.8
Distributed by trust	10	–	4.0	(6.1)	–	–	(2.1)	–	(2.1)
Dividends on common shares	10	–	–		–	(19.8)	(19.8)	–	(19.8)
Dividends paid to minority interest holders	12	–	–	–	–	–	–	(0.5)	(0.5)
Equity based compensation - expense		–	–	8.4	–	–	8.4	–	8.4
Balance as at 30 June 2016		**100.7**	**(26.4)**	**883.1**	**11.4**	**319.7**	**1,288.5**	**0.1**	**1,288.6**

Condensed interim statement of consolidated cash flows

For the six months ended 30 June 2016

	Notes	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	3	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	12	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	10	(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 beginning of period		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 period		**325.8**	**303.0**	**291.8**

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of the Group's unaudited condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2016. These will be consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

While there are amendments to existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2016, these are not currently relevant for the Group and do not impact the annual consolidated financial statements of the Group or the condensed interim 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 unaudited 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 which are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union.

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

The unaudited 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 previous two years are as follows:

	2015 $m	%	2014 $m	%
January to June	423.6	66.1	635.1	70.0
July to December	217.5	33.9	272.5	30.0
Total	**641.1**	**100.0**	**907.6**	**100.0**

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

		30 Jun 2016		30 Jun 2015		31 Dec 2015	
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	173.7	11.9	233.3	15.5	231.6	16.7
Non-Gulf of Mexico - U.S.	Hurricane	154.5	10.6	229.7	15.3	236.2	17.0
California	Earthquake	88.1	6.0	137.1	9.1	157.7	11.4
Pan-European	Windstorm	71.7	4.9	87.1	5.8	92.2	6.6
Japan	Earthquake	47.7	3.3	72.3	4.8	72.1	5.2
Japan	Typhoon	44.3	3.0	45.2	3.0	47.7	3.4
Pacific North West	Earthquake	29.1	2.0	34.9	2.3	37.1	2.7

(1) Landing hurricane from Florida to Texas.

		30 Jun 2016		30 Jun 2015		31 Dec 2015	
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	260.8	17.9	348.1	23.2	347.2	25.0
Non-Gulf of Mexico - U.S.	Hurricane	345.0	23.7	452.3	30.1	457.4	32.9
California	Earthquake	144.3	9.9	222.7	14.8	250.8	18.1
Pan-European	Windstorm	122.0	8.4	129.6	8.6	145.6	10.5
Japan	Earthquake	110.5	7.6	143.1	9.5	121.2	8.7
Japan	Typhoon	60.3	4.1	66.3	4.4	69.3	5.0
Pacific North West	Earthquake	67.1	4.6	91.3	6.1	98.5	7.1

(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 112 to 138 in the Group's Annual Report and Accounts for the year ended 31 December 2015. 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. The impact of the UK EU exit vote to the Group has been assessed and is not expected to have a significant impact.

1. General information

The Group is a provider of global specialty insurance and reinsurance products with operations in London 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 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 segmental 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 116 to 119 of the Group's Annual Report and Accounts for the year ended 31 December 2015. 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 2016

Gross premiums written	**$m Property**	**$m Energy**	**$m Marine**	**$m Aviation**	**$m Lloyd's**	**$m Total**
(Analysed by geographical region)						
U.S. and Canada	59.2	0.2	–	–	67.4	126.8
Worldwide offshore	0.2	86.7	27.5	0.1	–	114.5
Worldwide, including the U.S. and Canada [1]	16.7	1.3	–	17.1	37.1	72.2
Europe	17.4	–	–	–	15.1	32.5
Far East	19.8	–	–	–	6.3	26.1
Worldwide, excluding the U.S. and Canada [2]	4.6	0.1	–	–	5.1	9.8
Middle East	6.8	–	–	–	1.5	8.3
Rest of world	26.0	–	–	–	14.4	40.4
Total	**150.7**	**88.3**	**27.5**	**17.2**	**146.9**	**430.6**
Outwards reinsurance premiums	(52.9)	(37.7)	(7.7)	(7.1)	(46.6)	(152.0)
Change in unearned premiums	(47.7)	(13.5)	(5.1)	1.7	(32.5)	(97.1)
Change in unearned premiums ceded	31.0	16.5	3.7	1.2	16.7	69.1
Net premiums earned	**81.1**	**53.6**	**18.4**	**13.0**	**84.5**	**250.6**
Insurance losses and loss adjustment expenses	0.7	(72.1)	1.0	0.3	(64.8)	(134.9)
Insurance losses and loss adjustment expenses recoverable	0.1	40.8	–	–	21.0	61.9
Insurance acquisition expenses	(14.8)	(25.2)	(4.8)	(3.8)	(19.7)	(68.3)
Insurance acquisition expenses ceded	0.4	0.6	0.1	0.1	0.1	1.3
Net underwriting profit (loss)	**67.5**	**(2.3)**	**14.7**	**9.6**	**21.1**	**110.6**
Net unallocated income and expenses						(54.0)
Profit before tax						**56.6**
Net loss ratio	(1.0%)	58.4%	(5.4%)	(2.3%)	51.8%	29.1%
Net acquisition cost ratio	17.8%	45.9%	25.5%	28.5%	23.2%	26.7%
Expense ratio	–	–	–	–	–	20.4%
Combined ratio	**16.8%**	**104.3%**	**20.1%**	**26.2%**	**75.0%**	**76.2%**

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

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 year ended 31 December 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	74.3	1.2	–	–	100.6	176.1
Worldwide offshore	0.2	106.2	46.8	–	–	153.2
Worldwide, including the U.S. and Canada [1]	23.0	3.9	–	36.6	72.1	135.6
Europe	24.2	(0.1)	–	–	24.8	48.9
Far East	23.2	(0.1)	–	–	8.1	31.2
Worldwide, excluding the U.S. and Canada [2]	10.4	–	–	–	7.8	18.2
Middle East	7.3	–	–	–	0.7	8.0
Rest of world	34.6	0.9	0.8	–	33.6	69.9
Total	**197.2**	**112.0**	**47.6**	**36.6**	**247.7**	**641.1**
Outwards reinsurance premiums	(51.4)	(30.6)	(11.9)	(14.2)	(51.3)	(159.4)
Change in unearned premiums	19.6	48.6	1.9	6.4	3.4	79.9
Change in unearned premiums ceded	5.9	(3.5)	0.1	4.6	(1.6)	5.5
Net premiums earned	**171.3**	**126.5**	**37.7**	**33.4**	**198.2**	**567.1**
Insurance losses and loss adjustment expenses	(33.0)	(47.5)	(5.2)	(26.8)	(65.0)	(177.5)
Insurance losses and loss adjustment expenses recoverable	14.8	0.7	–	7.5	(1.2)	21.8
Insurance acquisition expenses	(32.4)	(48.0)	(13.2)	(8.9)	(45.7)	(148.2)
Insurance acquisition expenses ceded	0.8	0.7	0.3	0.1	0.1	2.0
Net underwriting profit	**121.5**	**32.4**	**19.6**	**5.3**	**86.4**	**265.2**
Net unallocated income and expenses						(93.5)
Profit before tax						**171.7**
Net loss ratio	10.6%	37.0%	13.8%	57.8%	33.4%	27.5%
Net acquisition cost ratio	18.4%	37.4%	34.2%	26.3%	23.0%	25.8%
Expense ratio	–	–	–	–	–	18.8%
Combined ratio	**29.0%**	**74.4%**	**48.0%**	**84.1%**	**56.4%**	**72.1%**

(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.

3. Investment return

The total investment return for the Group is as follows:

For the six months ended 30 June 2016	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
	Net investment income and other investment income[1]	**Net realised (losses) gains and impairments**	**Net change in unrealised gains/ losses**	**Total investment return excluding foreign exchange**	**Foreign exchange gains (losses)**	**Total investment return including foreign exchange**
Fixed maturity securities, AFS	14.4	(1.3)	22.7	35.8	1.8	37.6
Fixed maturity securities, at FVTPL	0.1	–	–	0.1	–	0.1
Equity securities, AFS	0.2	(0.6)	(0.2)	(0.6)	–	(0.6)
Hedge funds, at FVTPL	(0.6)	(1.1)	–	(1.7)	–	(1.7)
Other investments	1.0	(4.4)	–	(3.4)	(0.3)	(3.7)
Cash and cash equivalents	0.4	–	–	0.4	(0.1)	0.3
Total investment return	**15.5**	**(7.4)**	**22.5**	**30.6**	**1.4**	**32.0**

(1) Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income.

For the six months ended 30 June 2015	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
	Net investment income and other investment income[1]	**Net realised (losses) gains and impairments**	**Net change in unrealised gains/ losses**	**Total investment return excluding foreign exchange**	**Foreign exchange gains (losses)**	**Total investment return including foreign exchange**
Fixed maturity securities, AFS	14.1	1.6	1.3	17.0	(6.0)	11.0
Fixed maturity 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**

(1) Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income.

For the year ended 31 December 2015	$m	$m	$m	$m	$m	$m
	Net investment income and other investment income[1]	Net realised (losses) gains and impairments	Net change in unrealised gains/ losses	Total investment return excluding foreign exchange	Foreign exchange gains (losses)	Total investment return including foreign exchange
Fixed maturity securities, AFS	28.8	(1.8)	(11.4)	15.6	(9.2)	6.4
Fixed maturity securities, at FVTPL	(1.3)	2.7	–	1.4	–	1.4
Equity securities, AFS	0.4	(0.7)	(0.2)	(0.5)	–	(0.5)
Hedge funds, at FVTPL	–	(1.6)	–	(1.6)	–	(1.6)
Other investments	–	(1.4)	–	(1.4)	2.1	0.7
Cash and cash equivalents	0.6	–	–	0.6	(0.3)	0.3
Total investment return	**28.5**	**(2.8)**	**(11.6)**	**14.1**	**(7.4)**	**6.7**

(1) Net unrealised gains/losses on our FVTPL investments are included within net investment income and net other investment income.

Net realised (losses) gains and impairments includes impairment losses of $2.8 million (30 June 2015 - $0.2 million; 31 December 2015 - $2.4 million) recognised on fixed maturity securities and $0.4 million (30 June 2015 - $0.2 million; 31 December 2015 - $0.5 million) recognised on equity securities held by the Group. Realised gains and losses on futures, options contracts and swaps are included in net realised (losses) gains and impairments. Included in investment income is $2.2 million (30 June 2015 - $1.7 million; 31 December 2015 - $3.2 million) of investment management, accounting and custodian fees.

4. Tax

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	Six months 2016 $m	Six months 2015 $m	Twelve months 2015 $m
Corporation tax (credit) charge for the period	(1.8)	5.7	2.3
Adjustments in respect of prior period corporation tax	(0.8)	–	(0.4)
Deferred tax credit for the period	(0.2)	(6.7)	(7.9)
Adjustments in respect of prior period deferred tax	–	(2.8)	(3.2)
Tax rate change adjustment	(0.5)	(0.5)	(0.8)
Total tax credit	**(3.3)**	**(4.3)**	**(10.0)**

Tax reconciliation	**Six months 2016 $m**	**Six months 2015 $m**	**Twelve months 2015 $m**
Profit before tax	56.6	88.6	171.7
UK corporation tax at 20.0% (2015 - 20.3%)	11.3	17.9	34.8
Non-taxable income	(16.1)	(20.1)	(41.1)
Adjustments in respect of prior period	(0.8)	(2.8)	(3.6)
Differences related to equity based compensation	0.9	(0.1)	0.4
Other expense permanent differences	2.7	1.3	1.7
Tax rate change adjustment	(0.5)	(0.5)	(0.8)
Utilisation of tax losses previously unrecognised for deferred tax	(0.8)	–	(1.4)
Total tax credit	**(3.3)**	**(4.3)**	**(10.0)**

Due to the different tax paying jurisdictions, throughout the Group the current tax credit as a percentage of the Group's profit before tax is 5.8 per cent (30 June 2015 - 4.9 per cent; 31 December 2015 - 5.8 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 in other reserves	**Six months 2016 $m**	**Six months 2015 $m**	**Twelve months 2015 $m**
Deferred tax credit	–	(0.1)	(0.1)
Total tax credit in other reserves	**–**	**(0.1)**	**(0.1)**

Refer to note 5 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 (loss) within shareholders' equity.

5. Investments

As at 30 June 2016	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed maturity securities, AFS				
- Short-term investments	14.5	–	–	14.5
- Fixed maturity funds	13.3	–	(2.5)	10.8
- U.S. treasuries	446.4	4.2	(0.2)	450.4
- Other government bonds	62.1	0.8	(1.3)	61.6
- U.S. municipal bonds	3.8	0.3	–	4.1
- U.S. government agency debt	3.9	–	–	3.9
- Asset backed securities	122.3	0.2	(1.3)	121.2
- U.S. government agency mortgage backed securities	159.4	3.0	(0.8)	161.6
- Non-agency mortgage backed securities	17.4	0.1	(0.5)	17.0
- Non-agency commercial mortgage backed securities	16.7	0.1	–	16.8
- Bank loans	121.3	0.3	(2.3)	119.3
- Corporate bonds	619.1	8.3	(0.9)	626.5
Total fixed maturity securities, AFS	**1,600.2**	**17.3**	**(9.8)**	**1,607.7**
- Fixed maturity securities, at FVTPL	24.9	–	(0.1)	24.8
- Equity securities, AFS	15.0	2.4	(2.6)	14.8
- Hedge funds, at FVTPL	135.5	3.8	(1.9)	137.4
- Other investments	–	0.3	(0.2)	0.1
Total investments	**1,775.6**	**23.8**	**(14.6)**	**1,784.8**

As at 30 June 2015	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed maturity securities, AFS				
- Short-term investments	55.3	–	–	55.3
- Fixed maturity 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 maturity securities, AFS	**1,727.7**	**9.3**	**(19.2)**	**1,717.8**
- Fixed maturity 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 31 December 2015	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed maturity securities, AFS				
- Short-term investments	20.6	–	–	20.6
- Fixed maturity funds	13.9	–	(2.5)	11.4
- U.S. treasuries	394.9	0.2	(1.8)	393.3
- Other government bonds	70.0	0.3	(4.9)	65.4
- U.S. municipal bonds	5.0	0.2	–	5.2
- U.S. government agency debt	3.9	–	–	3.9
- Asset backed securities	115.2	0.1	(1.4)	113.9
- U.S. government agency mortgage backed securities	144.0	1.7	(1.9)	143.8
- Non-agency mortgage backed securities	22.1	0.3	(0.6)	21.8
- Non-agency commercial mortgage backed securities	28.8	0.1	(0.1)	28.8
- Bank loans	119.9	0.2	(5.1)	115.0
- Corporate bonds	659.4	1.4	(7.0)	653.8
Total fixed maturity securities, AFS	**1,597.7**	**4.5**	**(25.3)**	**1,576.9**
- Fixed maturity securities, at FVTPL	24.9	–	(0.1)	24.8
- Equity securities, AFS	15.8	1.6	(1.8)	15.6
- Hedge funds, at FVTPL	153.6	5.3	(2.9)	156.0
Total investments	**1,792.0**	**11.4**	**(30.1)**	**1,773.3**

Accumulated other comprehensive income (loss) is in relation to the Group's AFS fixed maturity and equity securities and is as follows:

	30 Jun 2016 $m	30 Jun 2015 $m	31 Dec 2015 $m
Gross unrealised gains	19.7	12.5	6.1
Gross unrealised losses	(12.4)	(21.8)	(27.1)
Net foreign exchange losses on fixed maturity securities	4.6	12.1	10.4
Tax provision	(0.5)	(0.1)	0.1
Accumulated other comprehensive income (loss)	**11.4**	**2.7**	**(10.5)**

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio (excluding the hedge fund portfolio - see Level (iii)) 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 the 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 2016 and 30 June 2015 and the year ended 31 December 2015.

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 maturity 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 techniques incorporate 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 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 2016	**$m**	**$m**	**$m**	**$m**
	Level (i)	**Level (ii)**	**Level (iii)**	**Total**
Fixed maturity securities, AFS				
- Short-term investments	13.8	0.7	–	14.5
- Fixed maturity funds	–	10.8	–	10.8
- U.S. treasuries	450.4	–	–	450.4
- Other government bonds	–	61.6	–	61.6
- U.S. municipal bonds	–	4.1	–	4.1
- U.S. government agency debt	–	3.9	–	3.9
- Asset backed securities	–	121.2	–	121.2
- U.S. government agency mortgage backed securities	–	161.6	–	161.6
- Non-agency mortgage backed securities	–	17.0	–	17.0
- Non-agency commercial mortgage backed securities	–	16.8	–	16.8
- Bank loans	–	119.3	–	119.3
- Corporate bonds	–	626.5	–	626.5
Total fixed maturity securities, AFS	**464.2**	**1,143.5**	**–**	**1,607.7**
- Fixed maturity securities, at FVTPL	–	24.8	–	24.8
- Equity securities, AFS	14.8	–	–	14.8
- Hedge funds, at FVTPL	–	–	137.4	137.4
- Other investments	–	0.1	–	0.1
Total investments	**479.0**	**1,168.4**	**137.4**	**1,784.8**

As at 30 June 2015	**$m**	**$m**	**$m**	**$m**
	Level (i)	**Level (ii)**	**Level (iii)**	**Total**
Fixed maturity securities				
- Short-term investments	55.3	–	–	55.3
- Fixed maturity 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 maturity securities, AFS	**389.8**	**1,328.0**	**–**	**1,717.8**
- Fixed maturity 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 31 December 2015	$m Level (i)	$m Level (ii)	$m Level (iii)	$m Total
Fixed maturity securities, AFS				
- Short-term investments	10.9	9.7	–	20.6
- Fixed maturity funds	–	11.4	–	11.4
- U.S. treasuries	393.3	–	–	393.3
- Other government bonds	–	65.4	–	65.4
- U.S. municipal bonds	–	5.2	–	5.2
- U.S. government agency debt	–	3.9	–	3.9
- Asset backed securities	–	113.9	–	113.9
- U.S. government agency mortgage backed securities	–	143.8	–	143.8
- Non-agency mortgage backed securities	–	21.8	–	21.8
- Non-agency commercial mortgage backed securities	–	28.8	–	28.8
- Bank loans	–	115.0	–	115.0
- Corporate bonds	–	653.8	–	653.8
Total fixed maturity securities, AFS	**404.2**	**1,172.7**	**–**	**1,576.9**
- Fixed maturity securities, at FVTPL	–	24.8	–	24.8
- Equity securities, AFS	15.6	–	–	15.6
- Hedge funds, at FVTPL	–	–	156.0	156.0
Total investments	**419.8**	**1,197.5**	**156.0**	**1,773.3**

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 2016 and 30 June 2015 and for the year ended 31 December 2015:

	Hedge funds $m
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**
Sales	(12.9)
Total net (losses) recognised in other investment income in profit or loss	(5.0)
As at 31 December 2015	**156.0**
Sales	(17.0)
Total net (losses) recognised in other investment income in profit or loss	(1.6)
As at 30 June 2016	**137.4**

6. 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 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**
Net incurred losses for:			
Prior years	(48.1)	1.6	(46.5)
Current year	110.4	(3.3)	107.1
Exchange adjustments	2.1	0.5	2.6
Incurred losses and loss adjustment expenses	**64.4**	**(1.2)**	**63.2**
Net paid losses for:			
Prior years	95.9	(4.4)	91.5
Current year	44.1	(8.8)	35.3
Paid losses and loss adjustment expenses	**140.0**	**(13.2)**	**126.8**
As at 31 December 2015	**671.0**	**(83.9)**	**587.1**
Net incurred losses for:			
Prior years	(59.4)	2.4	(57.0)
Current year	194.3	(64.3)	130.0
Exchange adjustments	3.5	0.6	4.1
Incurred losses and loss adjustment expenses	**138.4**	**(61.3)**	**77.1**
Net paid losses for:			
Prior years	86.7	(3.8)	82.9
Current year	10.6	(1.9)	8.7
Paid losses and loss adjustment expenses	**97.3**	**(5.7)**	**91.6**
As at 30 June 2016	**712.1**	**(139.5)**	**572.6**

The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate. However a 20 per cent increase in estimated gross losses would lead to a $142.4 million (30 June 2015 - $149.3 million; 31 December 2015 - $134.2 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, ACRs assessed by management and IBNR is shown below:

	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	$m	%	$m	%	$m	%
Outstanding losses	283.0	39.8	300.0	40.2	286.0	42.6
Additional case reserves	181.9	25.5	224.2	30.0	162.1	24.2
Losses incurred but not reported	247.2	34.7	222.4	29.8	222.9	33.2
Total	**712.1**	**100.0**	**746.6**	**100.0**	**671.0**	**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:

Favourable (unfavourable) development	30 Jun 2016 $m	30 Jun 2015 $m	31 Dec 2015 $m
2006 accident year and prior	0.1	0.7	1.6
2007 accident year	0.2	0.9	1.1
2008 accident year	0.8	(2.6)	(2.1)
2009 accident year	0.5	3.2	4.1
2010 accident year	1.4	(4.5)	(3.5)
2011 accident year	8.3	19.7	17.1
2012 accident year	4.0	1.9	10.8
2013 accident year	5.1	20.2	35.4
2014 accident year	10.2	21.7	43.2
2015 accident year	26.4	–	–
Total favourable development	**57.0**	**61.2**	**107.7**

The favourable prior year development in 2016 and 2015 arose primarily from IBNR releases due to a lack of reported claims. The first half of 2015 also included a recovery on our 2011 Thai flood loss on the settlement of a claim.

7. Deferred tax

	30 Jun 2016 $m	30 Jun 2015 $m	31 Dec 2015 $m
Equity based compensation	(4.1)	(3.5)	(4.6)
Claims equalisation reserves	12.1	15.4	14.6
Syndicate underwriting profits	3.8	1.8	3.3
Syndicate participation rights	13.6	16.0	13.6
Other temporary differences	(0.2)	0.1	0.6
Tax losses carried forward	(1.8)	(1.3)	(1.9)
Net deferred tax liability	**23.4**	**28.5**	**25.6**

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 2016 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of $12.0 million (30 June 2015 - $15.9 million; 31 December 2015 - $14.1 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.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2015 reducing the rate to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020. In the March 2016 UK budget, a further reduction in the UK corporation tax rate was announced reducing the rate to 17 per cent from 1 April 2020. This change has not yet been substantively enacted through the UK parliament at the date of signing the accounts. It is estimated that the effect of the reduction to 17 per cent will be to reduce the Group's deferred tax liability by approximately $1.5 million.

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

8. Intangible assets

The net book value as at 30 June 2016, 30 June 2015 and 31 December 2015 was $153.8 million and during each of the respective periods the amortisation charge was $nil.

9. Financing arrangements

As at 30 June 2016 the financing arrangements of the Group remained unchanged from those reported in the Group’s Annual Report and Accounts for the year ended 31 December 2015 except for the replacement of the existing, expiring LOC and revolving credit facility.

On 24 March 2016 LHL and LICL entered into a $300.0 million syndicated collateralised 5 year LOC and revolving credit facility with at $75.0 million loan sub-limit. There was no outstanding debt under this facility at 30 June 2016.

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

The terms of the $300.0 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 subordinated loan notes are excluded from this calculation.

As at 30 June 2016 the Group was in compliance with all covenants under this facility.

10. Share capital

Authorised ordinary shares of $0.50 each	Number	$m
As at 30 June 2016 and 2015 and 31 December 2015 and 2014	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid	Number	$m
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**
Shares issued	1,000,000	0.5
As at 30 June 2016 and 31 December 2015	**201,341,918**	**100.7**

During the six months ended 30 June 2016 no new common shares were issued. The new common shares issued during 2015 were to satisfy the exercises of warrants and to fund future RSS exercises.

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
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**
Shares distributed	(284,618)	(2.9)	(196,188)	(1.8)	(480,806)	(4.7)
Shares repurchased	–	–	1,000,000	9.3	1,000,000	9.3
As at 31 December 2015	**1,841,526**	**18.1**	**1,302,534**	**12.3**	**3,144,060**	**30.4**
Shares distributed	–	–	(430,503)	(4.0)	(430,503)	(4.0)
As at 30 June 2016	**1,841,526**	**18.1**	**872,031**	**8.3**	**2,713,557**	**26.4**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2016 was 199,500,392 (30 June 2015 - 198,215,774; 31 December 2015 - 199,500,392).

Share repurchases

At the AGM held on 4 May 2016 the Group's shareholders approved the renewal of the repurchase programme authorising the repurchase of a maximum of 20,134,191 shares, with such authority to expire on the conclusion of the 2017 AGM or, if earlier, 15 months from the date the resolution approving the repurchase programme was passed.

During the six months ended 30 June 2016 and 30 June 2015 no shares were repurchased by the Group under the share repurchase programme.

During the six months ended 30 June 2016, the trustees of the EBT acquired nil shares (30 June 2015 - nil; 31 December 2015 - 1,000,000) in accordance with the terms of that trust and distributed 430,503 shares (30 June 2015 - 1,158,347; 31 December 2015 - 1,354,535). 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	20 Mar 2015	15 Apr 2015	19.8
Special	$0.50	20 Mar 2015	15 Apr 2015	99.2
Interim	$0.05	28 Aug 2015	25 Sep 2015	9.9
Special	$0.95	27 Nov 2015	18 Dec 2015	188.6
Final	$0.10	26 Feb 2016	23 Mar 2016	19.8

11. Earnings per share

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

	Six months 2016 $m	Six months 2015 $m	Twelve months 2015 $m
Profit for the period attributable to equity shareholders	59.8	92.6	181.1

	Number of shares	Number of shares	Number of shares
Basic weighted average number of shares	198,370,623	193,442,233	195,649,042
Dilutive effect of RSS	2,869,795	2,264,277	2,982,711
Dilutive effect of warrants	–	285,191	–
Diluted weighted average number of shares	**201,240,418**	**195,991,701**	**198,631,753**

Earnings per share	Six months 2016	Six months 2015	Twelve months 2015
Basic	$0.30	$0.48	$0.93
Diluted	$0.30	$0.47	$0.91

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.

12. Related party disclosures

Key management compensation

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

	Six months 2016 $m	Six months 2015 $m	Twelve months 2015 $m
Short-term compensation	2.1	2.7	4.1
Equity based compensation	2.0	0.9	3.3
Directors' fees and expenses	1.1	1.0	1.9
Total	**5.2**	**4.6**	**9.3**

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 associate

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 2016 the Group recognised $4.3 million (30 June 2015 - $6.8 million; 31 December 2015 - $12.9 million) of service fees and profit commissions in other income in relation to this agreement.

During the first half of 2016, the Group committed an additional $1.0 million (30 June 2015 - $4.0 million; 31 December 2015 - $23.5 million) of capital to KHL. During the first half of 2016, KHL returned $25.4 million of capital to the Group (30 June 2015 - $26.8 million; 31 December 2015 - $32.8 million).

During the first half of 2016, a dividend of $0.5 million was distributed to minority interest holders (30 June 2015 - $nil, 31 December 2015 - $0.6 million).

13. Non-cash transactions

The Group issued new common shares to satisfy the exercises of warrants and future exercises of RSS in the amount of $nil (30 June 2015 - $4.1 million; 31 December 2015 - $4.6 million). Refer to note 10 for further details.

14. Statutory requirements

Effective 1 January 2016, Solvency II, a regulatory regime for (re)insurance in the European Economic Area, introduced a new basis for assessing capital, which impacted the Group, LUK and CCL (as part of Lloyd's). As at 30 June 2016 the Group and LUK were more than adequately capitalised for supervisory and regulatory purposes under the Solvency II regulations.

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

15. Commitments

As at 30 June 2016 the Group has a commitment of $50.0 million (30 June 2015 - $50.0 million; 31 December 2015 - $50.0 million) relating to a credit facility fund.

16. Subsequent events

Dividend

On 26 July 2016 the Board of Directors declared the payment of an interim ordinary dividend of $0.05 per common share (approximately £0.04 pence per common share) to shareholders of record on 5 August 2016, with a settlement date of 31 August 2016. The total dividend payable, 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 Directors' responsibilities

The Directors confirm that this set of unaudited condensed interim consolidated financial statements has been prepared in accordance with IAS 34 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 consolidated interim financial statements and the information contained within the interim management report, the business is a going concern.

The Directors of the Company are listed on pages 56-57 of Lancashire Holdings Limited 2015 Annual Report and Accounts, with the exception of Martin Thomas who retired at the 2016 Annual General Meeting on 4 May 2016, Emma Duncan who retired on 8 July 2016 and Robert Lusardi who was appointed on 8 July 2016.

By order of the Board on 26 July 2016.

PETER CLARKE
DIRECTOR/CHAIRMAN

ELAINE WHELAN
DIRECTOR/CHIEF FINANCIAL OFFICER

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INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Introduction

We have been engaged by Lancashire Holdings Limited to review the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2016 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 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim consolidated 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 consolidated financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of interim consolidated 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 interim consolidated financial statements in the half-yearly financial report based on our review.

Scope of Review

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

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Ernst & Young LLP

London

26 July 2016

Additional case reserves (ACR)
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

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

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

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

Directors fees and expenses
Unless otherwise stated includes fees and expenses of all Directors across the Group

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

EU
European Union

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

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

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 after tax attributable to Lancashire excluding realised gains and losses, net of impairments,foreign exchange gains and losses and tax. Lancashire believes the reporting of net operating profit available to Lancashire helps the understanding of results by highlighting the underlying profitability of Lancashire's core insurance and reinsurance business

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

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

UK
United Kingdom

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; 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.