# LANCASHIRE HOLDINGS LIMITED

## GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 2.9% IN Q2 2018 AND 5.9% YEAR TO DATE
## COMBINED RATIO OF 69.2% IN Q2 2018, 67.1% YEAR TO DATE
## FULLY CONVERTED BOOK VALUE PER SHARE OF $5.70 AS AT 30 JUNE 2018

26 July 2018
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2018 and the six months ended 30 June 2018.

**Financial highlights**

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| **Fully converted book value per share** | **$5.70** | **$6.23** |
| **Return on equity[1] – Q2** | **2.9%** | **3.2%** |
| **Return on equity[1]– YTD** | **5.9%** | **5.9%** |
| **Return on tangible equity[2] – Q2** | **3.4%** | **3.6%** |
| **Return on tangible equity[2] – YTD** | **6.9%** | **6.8%** |
| **Operating return on average equity – Q2** | **3.3%** | **2.5%** |
| **Operating return on average equity – YTD** | **6.9%** | **4.5%** |
| **Dividends per common share[3]** | **$0.05** | **$0.05** |

[1] Return on equity is defined as the change in fully converted book value per share, adjusted for dividends.
[2] Return on tangible equity excludes goodwill and other intangible assets.
[3] See "Dividends" below for Record Date and Dividend Payment Date.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| ***Highlights ($m)*** | | | | |
| Gross premiums written | 176.7 | 184.7 | 392.5 | 381.2 |
| Net premiums written | 146.2 | 163.5 | 234.0 | 239.8 |
| Profit before tax | 32.5 | 38.0 | 74.9 | 66.7 |
| Profit after tax[1] | 33.6 | 38.2 | 75.8 | 68.5 |
| Comprehensive income[1] | 31.5 | 40.5 | 64.4 | 74.6 |
| Net operating profit[1] | 37.8 | 30.9 | 78.3 | 56.1 |
| ***Per share data*** | | | | |
| Diluted earnings per share | $0.17 | $0.19 | $0.38 | $0.34 |
| Diluted earnings per share - operating | $0.19 | $0.15 | $0.39 | $0.28 |
| ***Financial ratios*** | | | | |
| Total investment return including internal currency hedging | 0.5% | 0.8% | 0.3% | 1.5% |
| Net loss ratio | 18.5% | 12.1% | 15.1% | 26.0% |
| Combined ratio | 69.2% | 69.8% | 67.1% | 78.4% |
| Accident year loss ratio | 43.6% | 39.5% | 38.7% | 43.3% |

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

**Alex Maloney, Group Chief Executive Officer, commented:**

"With a strong underwriting result and a decent investment performance, despite the volatility in the investment market, the Group has delivered a solid set of results for the year to date with an RoE of 5.9%. Our earlier predictions of how the insurance market would respond following the 2017 loss events are proving to be accurate. Pricing peaked at the January renewals and we are now experiencing a decline from those levels, although we remain in positive territory for the year to date. We have still been able to take advantage of rate increases across most of our lines of business. While it may appear that our second quarter premiums don't support that statement, with a year on year reduction of 4.3%, the rate increases and growth we saw in the quarter are masked by the impact of the timing of renewal of some multi-year deals and some prior underwriting year premium that came through in the second quarter of 2017. We are pleased with the new business we have been able to add, in particular across our property book, and our new energy onshore and power underwriters are steadily building their books.

We will watch this year's wind season with interest. While we believe that there is still too much capital in the market, another year of losses may serve to dampen appetites. We are witnessing some of our competitors exiting unprofitable lines of business and Lloyd's is also beginning to take action on under-performing syndicates and lines of business. Time will tell what impact this will have on the market. In the meantime we will continue to execute our strategy - supporting our core clients and building out some new lines of business where the pricing and margins achievable make sense to do so. We expect our risk levels to therefore stay materially the same."

**Elaine Whelan, Group Chief Financial Officer, commented:**

"We have produced a strong result for the quarter with a return on equity of 2.9%. Our investment portfolio performed well through another rate increase and on-going volatility in the market. On the underwriting side we continued to grow our book modestly and we also had the benefit of further favourable development on our prior year reserves. Our net loss ratio was 18.5% and our combined ratio was 69.2% in the second quarter.

The majority of our book renews in the first half of the year so we have been able to lock in the peak post loss pricing at the beginning of the year. Our outlook for the rest of the year is a continuation of current trends. However, we expect to maintain our core book and add new business where there is the opportunity to do so. We will continue to match our capital to those underwriting opportunities."

**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 2017, with our Lloyd's segment shown separately in order to aid comparability:

**RPI Lancashire (excluding Lloyd's segment)**

| **Class** | **YTD 2018** | **Q2 2018** | **Q1 2018** |
|---|---|---|---|
| Aviation (AV52) | 99 % | 100 % | 96 % |
| Gulf of Mexico energy | 101 % | 101 % | 110 % |
| Energy offshore worldwide | 103 % | 103 % | 103 % |
| Marine | 97 % | 97 % | 97 % |
| Property retrocession and reinsurance | 109 % | 103 % | 111 % |
| Terrorism | 100 % | 99 % | 100 % |
| **Lancashire (excluding Lloyd's segment)** | **104%** | **101%** | **105%** |

**RPI Lloyd's segment**

| **Class** | **YTD 2018** | **Q2 2018** | **Q1 2018** |
|---|---|---|---|
| Aviation | 103 % | 105 % | 102 % |
| Energy | 103 % | 103 % | 102 % |
| Marine | 102 % | 104 % | 101 % |
| Property retrocession and reinsurance | 108 % | 107 % | 108 % |
| Terrorism | 99 % | 99 % | 99 % |
| **Lloyd's segment** | **106%** | **107%** | **106%** |

**Underwriting results**

**Gross premiums written**

| | Q2 | | | | YTD | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | **2017** | **Change** | **Change** | **2018** | **2017** | **Change** | **Change** |
| | **$m** | **$m** | **$m** | **%** | **$m** | **$m** | **$m** | **%** |
| Property | 64.2 | 56.3 | 7.9 | 14.0 | 144.1 | 130.2 | 13.9 | 10.7 |
| Energy | 37.4 | 46.6 | (9.2) | (19.7) | 67.8 | 72.4 | (4.6) | (6.4) |
| Marine | 9.0 | 22.8 | (13.8) | (60.5) | 23.9 | 43.1 | (19.2) | (44.5) |
| Aviation | 4.8 | 4.4 | 0.4 | 9.1 | 8.8 | 7.6 | 1.2 | 15.8 |
| Lloyd’s | 61.3 | 54.6 | 6.7 | 12.3 | 147.9 | 127.9 | 20.0 | 15.6 |
| **Total** | **176.7** | **184.7** | **(8.0)** | **(4.3)** | **392.5** | **381.2** | **11.3** | **3.0** |

Gross premiums written decreased by 4.3% in the second quarter of 2018 compared to the same period in 2017. For the first six months of 2018, gross premiums written increased by 3.0% compared to the first six months of 2017. The Group’s five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 14.0% for the second quarter of 2018 compared to the same period in 2017 and increased by 10.7% in the first six months of 2018 compared to the first six months of 2017. For both the quarter and the six months to 30 June the majority of the increase was due to new business plus rate increases across most of the property classes in addition to exposure adjustments to some prior underwriting year contracts in the terror class. These increases were somewhat offset by multi-year contracts not renewing in the property catastrophe and political risk classes.

Energy gross premiums written decreased by 19.7% for the second quarter of 2018 compared to the same period in 2017 and decreased by 6.4% in the first six months of 2018 compared to the first six months of 2017. The decrease for the quarter was mainly due to multi-year contracts written in the Gulf of Mexico class in 2017 that were not yet due to renew, plus the restructuring of an existing multi-year deal. This was offset somewhat by new business in the onshore energy class. Exposure increases on prior underwriting year risk-attaching business in the first quarter in the energy construction class further offset the reduction for the six months to 30 June.

Marine gross premiums written decreased by 60.5% for the second quarter of 2018 compared to the same period in 2017 and decreased by 44.5% in the first six months of 2018 compared to the first six months of 2017. The decrease for the quarter and the six months to 30 June was mainly due to the timing of non-annual renewals and the prior periods being more greatly impacted by increases in exposure on risk-attaching business from prior underwriting years. There was also less pro-rata business written in both the first and second quarters of 2018 compared to the prior year.

Aviation gross premiums written increased by 9.1% for the second quarter of 2018 compared to the same period in 2017 and increased by 15.8% in the first six months of 2018 compared to the first six months of 2017. The first half of the year is not a major renewal period for the aviation segment and the dollar movement for both the quarter and the six months to 30 June was small.

In the Lloyd’s segment gross premiums written increased by 12.3% for the second quarter of 2018 compared to the same period in 2017 and increased by 15.6% in the first six months of 2018 compared to the first six months of 2017. While there were increases across most lines of business for both the quarter and the six months to 30 June the majority of the increase was driven by the property and marine books due to improved rates, new business and exposure increases on prior underwriting year risk-attaching business. In the second quarter of 2018 we also started to write new energy power and marine hull classes of business through the Lloyd's segment. These increases were slightly offset by a reduction in the energy wind book due to a reduction in exposure.

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Ceded reinsurance premiums increased by $9.3 million, or 43.9%, for the second quarter of 2018 compared to the same period in 2017 and increased by $17.1 million, or 12.1%, for the first six months of 2018 compared to the first six months of 2017. The increase in spend for the quarter was primarily due to additional cover purchased plus the timing of renewals, offset somewhat by lower reinstatement premiums. For the six months to 30 June the increase in spend was primarily due to a combination of rate increases, additional cover purchased and the timing of renewals, offset in part by lower reinstatement premiums.

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Net premiums earned as a proportion of net premiums written was 71.1% in the second quarter of 2018 compared to 60.1% for the same period in 2017 and 93.2% in the six months to 30 June 2018 compared to 89.8% in the same period in 2017. The increased earning percentage for the second quarter of 2018 reflected a higher proportion of the six months to 30 June premium being written in the first quarter of 2018 compared to the first quarter of 2017. The marginally higher earnings percentage for the first six months of 2018 compared to the first six months of 2017 was driven by the earning of multi-year deals written in 2017 plus higher reinsurance reinstatement premiums in the first six months of 2017 compared to the first six months of 2018.

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The Group's net loss ratio for the second quarter of 2018 was 18.5% compared to 12.1% for the same period in 2017 and 15.1% for the first six months of 2018 compared to 26.0% for the same period in 2017. The accident year loss ratio for the second quarter of 2018, including the impact of foreign exchange revaluations, was 43.6% compared to 39.5% for the same period in 2017 and 38.7% for the first six months of 2018 compared to 43.3% for the same period in 2017. There were no significant net losses for the quarter or first six months of either year.

Prior year favourable development for the second quarter of 2018 was $26.6 million, compared to $27.2 million for the second quarter of 2017, and $51.8 million for the first six months of 2018 compared to $37.8 million for the same period in 2017. 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. Both quarters of 2018 also included a reduction on prior accident year energy claims.

The total estimated net loss, excluding the impact of inwards and outwards reinstatement premiums and our share of losses from Kinesis, for the 2017 catastrophe losses Hurricanes Harvey, Irma and Maria plus the Californian Wildfires, was $160.3 million at 30 June 2018 compared to $171.5 million at 31 December 2017 and $163.6 million at 31 March 2018.

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

| | **Q2** | | **YTD** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **$m** | **$m** | **$m** | **$m** |
| Property | 5.9 | 3.7 | 18.4 | 10.2 |
| Energy | 17.2 | 8.6 | 29.9 | 10.2 |
| Marine | 3.4 | 9.3 | 5.0 | 11.5 |
| Aviation | 0.5 | 0.7 | 1.0 | 1.7 |
| Lloyd's | (0.4) | 4.9 | (2.5) | 4.2 |
| **Total** | **26.6** | **27.2** | **51.8** | **37.8** |

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the six months to 30 June 2018 and 2017:

| | **Six months ended 30 June 2018** | **Six months ended 30 June 2017** |
|---|---|---|
| | **$m** | **$m** |
| 2008 accident year and prior | 0.5 | 0.8 |
| 2009 accident year | 10.9 | 0.1 |
| 2010 accident year | – | 1.6 |
| 2011 accident year | 3.7 | 4.3 |
| 2012 accident year | (1.5) | 3.1 |
| 2013 accident year | 2.3 | 2.6 |
| 2014 accident year | 2.0 | 2.9 |
| 2015 accident year | 5.1 | 14.2 |
| 2016 accident year | 19.8 | 8.2 |
| 2017 accident year | 9.0 | – |
| **Total** | **51.8** | **37.8** |

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 42.5% at 30 June 2018 compared to 36.2% at 30 June 2017.

**Investments**

Net investment income, excluding realised and unrealised gains and losses, was $8.7 million for the second quarter of 2018, an increase of 6.1% from the second quarter of 2017. Net investment income was $15.9 million for the first six months of 2018, an increase of 8.2% compared to the same period in 2017. 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 $8.6 million for the second quarter of 2018 compared to a gain of $14.9 million for the second quarter of 2017 and a gain of $5.4 million for the first six months of 2018 compared to a gain of $27.1 million for the same period in 2017.

The investment portfolio returned 0.5% during the second quarter of 2018 and 0.3% for the first six months of 2018. Our fixed maturity portfolios generated modestly positive returns during the second quarter as coupon returns more than offset the slight increase in treasury yields and minor spread widening. Portfolio returns were aided by strong returns in the Group's hedge fund, structured note and equity portfolios. During the second quarter of 2017, fixed maturity portfolios generated solid returns due to a decline in longer dated treasury yields and a modest narrowing of credit spreads. Returns were also supported in the second quarter of 2017 by strong performance from both the hedge fund and equity portfolios.

On a year-to-date basis investment returns have been dampened by an increase in treasury yields with two U.S. rate hikes and also modest credit spread widening. The portfolio generated a positive return due to strong returns from the Group's hedge fund and bank loan portfolios, as well as our short treasury futures position which mitigated some of the impact from the rise in treasury yields. In the first half of 2017 the portfolio generated robust returns due to a decline in longer dated treasury yields, a modest narrowing of credit spreads, and strong performance from the hedge fund and equity portfolios.

The corporate bond allocation represented 28.0% of managed invested assets at 30 June 2018 compared to 32.3% at 30 June 2017.

The managed portfolio was as follows:

| | As at 30 June 2018 | As at 31 December 2017 | As at 30 June 2017 |
|---|---|---|---|
| Fixed maturity securities | 82.0 % | 80.1 % | 80.4 % |
| Cash and cash equivalents | 7.8 % | 10.2 % | 9.8 % |
| Hedge funds | 8.9 % | 8.4 % | 8.6 % |
| Equity securities | 1.3 % | 1.3 % | 1.2 % |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

Key investment portfolio statistics were:

| | As at 30 June 2018 | As at 31 December 2017 | As at 30 June 2017 |
|---|---|---|---|
| Duration | 1.6 years | 1.7 years | 1.8 years |
| Credit quality | AA- | AA- | A+ |
| Book yield | 2.3% | 2.0% | 2.0% |
| Market yield | 2.8% | 2.1% | 2.0% |

**Lancashire Third Party Capital Management**

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

| | Q2 | | YTD | |
|---|---|---|---|---|
| | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| Kinesis underwriting fees | 1.0 | 0.7 | 2.0 | 1.4 |
| Kinesis profit commission | – | – | – | 5.4 |
| Lloyd's fees & profit commission | 0.4 | 0.6 | 0.8 | 1.1 |
| **Total other income** | **1.4** | **1.3** | **2.8** | **7.9** |
| Share of (loss) profit of associate | (0.6) | 0.7 | (2.4) | 1.4 |
| **Total net third party capital managed income** | **0.8** | **2.0** | **0.4** | **9.3** |

The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. Following the significant catastrophe activity during the second half of 2017, and resulting trapped collateral, there was no recognition in the first half of 2018 of any profit commission for the 2017 underwriting cycles. The share of (loss) profit of associate reflects Lancashire's 10% equity interest in the Kinesis vehicle. The reduction in the Lloyd's fees and profit commission is driven by the relative profitability of the underwriting years impacting each period.

**Other operating expenses**

Other operating expenses consist of the following items:

| | Q2 | | YTD | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **$m** | **$m** | **$m** | **$m** |
| Employee remuneration costs | 15.5 | 13.2 | 30.9 | 28.2 |
| Other operating expenses | 9.5 | 12.6 | 19.9 | 21.8 |
| **Total** | **25.0** | **25.8** | **50.8** | **50.0** |

Employee remuneration costs for the second quarter and for the first six months of 2018 were $2.3 million and $2.7 million, respectively, higher than the same periods in 2017. A slight increase in headcount and variability around incentive pay led to increased salaries and benefits for both the quarter and the six months to 30 June.

Other operating expenses for the second quarter and for the first six months of 2018 were $3.1 million and $1.9 million lower than the respective periods in 2017. The reduction in the second quarter was primarily due to lower software costs incurred and the timing of fees. For the six months to 30 June the lower software costs were partially offset by higher consulting fees incurred during the first quarter of 2018.

**Equity based compensation**

The equity based compensation expense was $2.2 million in the second quarter of 2018 compared to $2.9 million in the same period last year and $3.8 million for the first six months of 2018 compared to $2.8 million in the same period last year. The equity based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. A lower equity based compensation charge was recorded in the second quarter of 2018 primarily due to dampened performance expectations on prior year awards due to the 2017 loss events. During the first quarter of 2017 a lower equity based compensation charge was recorded primarily due to the lapsing of restrictive share scheme awards of former Cathedral employees on their departure from the Group, resulting in a higher equity based compensation charge for the first six months of 2018 compared to 2017.

**Capital**

As at 30 June 2018, total capital available to Lancashire was $1.478 billion, comprising shareholders' equity of $1.153 billion and $325.1 million of long-term debt. Tangible capital was $1.324 billion. Leverage was 22.0% on total capital and 24.6% on total tangible capital. Total capital and total tangible capital as at 30 June 2017 were $1.585 billion and $1.431 billion, respectively.

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

**Dividends**

During the first quarter of 2018, the Lancashire Board of Directors declared a final dividend in respect of 2017 of $0.10 (approximately £0.07) per common share. The dividend, totalling $20.0 million, was paid on 21 March 2018 to shareholders of record on 23 February 2018.

Lancashire announces that its Board of Directors has declared an interim dividend for 2018 of $0.05 per common share (approximately (£0.03) per common share at the current exchange rate), which will result in an aggregate payment of approximately $10.0 million. The dividend will be paid in Pound Sterling on

12 September 2018 (the "Dividend Payment Date") to shareholders of record on 17 August 2018 (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's registrars, Link Asset Services, for more details at: https://www.linkassetservices.com/shareholders/shareholder-services-uk

**Financial information**

**The Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2018 and the 2018 second quarter Financial Supplement are published on Lancashire's 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 Thursday 26 July 2018. The conference call will be hosted by Lancashire management.

**Participant Access:**
Dial in 5-10 minutes prior to the start time using the number / confirmation code below:

| | |
|---|---|
| **United Kingdom - Toll free / Freephone:** | 0800 279 7204 |
| **United Kingdom - Local:** | +44 (0)330 336 9411 |
| **United States / Canada - Toll free / Freephone:** | 888-224-1005 |
| **United States - Local:** | +1 929-477-0448 |
| **Canada - Local:** | +1 647 794 4605 |
| **Confirmation Code:** | **3859157** |

The call can also be accessed via webcast, please go to our website at:
http://www.lancashiregroup.com/en/investors.html or https://edge.media-server.com/m6/p/emugt6z9 to register and access.

A webcast replay facility will be available for 12 months and accessible at
http://www.lancashiregroup.com/en/investors/results-reports-and-presentations.html

For further information, please contact:


| | |
|---|---|
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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 |
| S&P Global Ratings | A- | Stable | 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); S&P Global Ratings: A+ (Strong); and Fitch: AA- (Very Strong).

Lancashire has capital in excess of $1.4 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 release contains information, which may be of a price sensitive nature, that Lancashire is making public in a manner consistent with the EU Market Abuse Regulation and other regulatory obligations. The information was submitted for publication, through the agency of the contact persons set out above, at 07.00 BST on 26 July 2018.

**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 RESPECTIVE 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 ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR HURRICANES HARVEY, IRMA AND MARIA AND THE EARTHQUAKES IN MEXICO THAT OCCURRED IN THE THIRD QUARTER OF 2017 AND THE WILDFIRES WHICH IMPACTED PARTS OF CALIFORNIA DURING 2017; THE IMPACT OF COMPLEX AND UNIQUE CAUSATION AND COVERAGE ISSUES ASSOCIATED WITH ATTRIBUTION OF LOSSES TO WIND OR FLOOD DAMAGE OR OTHER PERILS SUCH AS FIRE OR BUSINESS INTERRUPTION RELATING TO SUCH EVENTS; POTENTIAL UNCERTAINTIES RELATING TO REINSURANCE RECOVERIES, REINSTATEMENT PREMIUMS AND OTHER FACTORS INHERENT IN LOSS ESTIMATION; 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, S&P GLOBAL RATINGS, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED MATURITY INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES, CURRENCY EXCHANGE 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 THE GROUP OPERATES; 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 THE GROUP WRITES RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN THE GROUP'S INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; LANCASHIRE OR ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF "BREXIT" (FOLLOWING THE UK'S NOTIFICATION TO THE EUROPEAN COUNCIL UNDER ARTICLE 50 OF THE TREATY ON EUROPEAN UNION ON 29 MARCH 2017) AND FUTURE NEGOTIATIONS REGARDING THE U.K'S RELATIONSHIP WITH THE E.U. ON THE GROUP'S 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 STATEMENT TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE GROUP OR INDIVIDUALS ACTING ON BEHALF OF THE GROUP ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS NOTE. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS RELEASE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.

## Consolidated statement of comprehensive income

| | Q2 2018 $m | Q2 2017 $m | YTD 2018 $m | YTD 2017 $m |
|---|---|---|---|---|
| Gross premiums written | 176.7 | 184.7 | 392.5 | 381.2 |
| Outwards reinsurance premiums | (30.5) | (21.2) | (158.5) | (141.4) |
| **Net premiums written** | **146.2** | **163.5** | **234.0** | **239.8** |
| Change in unearned premiums | (27.0) | (43.7) | (87.5) | (83.3) |
| Change in unearned premiums on premiums ceded | (15.2) | (21.5) | 71.6 | 58.9 |
| **Net premiums earned** | **104.0** | **98.3** | **218.1** | **215.4** |
| Net investment income | 8.7 | 8.2 | 15.9 | 14.7 |
| Net other investment income (losses) | 3.3 | (1.1) | 3.1 | (1.9) |
| Net realised (losses) gains and impairments | (1.3) | 5.4 | (2.0) | 8.1 |
| Share of (loss) profit of associate | (0.6) | 0.7 | (2.4) | 1.4 |
| Other income | 1.4 | 1.3 | 2.8 | 7.9 |
| Net foreign exchange (losses) gains | (4.0) | 1.7 | (1.4) | 1.9 |
| **Total net revenue** | **111.5** | **114.5** | **234.1** | **247.5** |
| Insurance losses and loss adjustment expenses | 32.3 | 30.8 | 51.1 | 77.1 |
| Insurance losses and loss adjustment expenses recoverable | (13.1) | (18.9) | (18.2) | (21.0) |
| Net insurance acquisition expenses | 27.8 | 31.0 | 62.7 | 62.9 |
| Equity based compensation | 2.2 | 2.9 | 3.8 | 2.8 |
| Other operating expenses | 25.0 | 25.8 | 50.8 | 50.0 |
| **Total expenses** | **74.2** | **71.6** | **150.2** | **171.8** |
| **Results of operating activities** | **37.3** | **42.9** | **83.9** | **75.7** |
| Financing costs | 4.8 | 4.9 | 9.0 | 9.0 |
| **Profit before tax** | **32.5** | **38.0** | **74.9** | **66.7** |
| Tax credit | 1.1 | 0.2 | 0.8 | 2.1 |
| **Profit after tax** | **33.6** | **38.2** | **75.7** | **68.8** |
| Non-controlling interests | – | – | 0.1 | (0.3) |
| **Profit after tax attributable to Lancashire** | **33.6** | **38.2** | **75.8** | **68.5** |
| Net change in unrealised gains/losses on investments | (2.1) | 2.4 | (11.6) | 6.2 |
| Tax (charge) credit on net change in unrealised gains/losses on investments | – | (0.1) | 0.2 | (0.1) |
| **Other comprehensive (loss) income** | **(2.1)** | **2.3** | **(11.4)** | **6.1** |
| **Total comprehensive income attributable to Lancashire** | **31.5** | **40.5** | **64.4** | **74.6** |
| Net loss ratio | 18.5% | 12.1% | 15.1% | 26.0% |
| Net acquisition cost ratio | 26.7% | 31.5% | 28.7% | 29.2% |
| Administrative expense ratio | 24.0% | 26.2% | 23.3% | 23.2% |
| **Combined ratio** | 69.2% | 69.8% | 67.1% | 78.4% |
| Basic earnings per share | $ 0.17 | $ 0.19 | $ 0.38 | $ 0.34 |
| Diluted earnings per share | $ 0.17 | $ 0.19 | $ 0.38 | $ 0.34 |
| Change in fully converted book value per share | 2.9% | 3.2% | 5.9% | 5.9% |

## Consolidated balance sheet

| | As at 30 June 2018 $m | As at 30 June 2017 $m | As at 31 December 2017 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 212.4 | 278.7 | 256.5 |
| Accrued interest receivable | 6.7 | 6.7 | 6.1 |
| Investments | 1,689.4 | 1,691.1 | 1,654.6 |
| Inwards premiums receivable from insureds and cedants | 384.7 | 370.4 | 297.9 |
| Reinsurance assets | | | |
| - Unearned premiums on premiums ceded | 112.8 | 92.8 | 41.2 |
| - Reinsurance recoveries | 238.7 | 148.4 | 284.1 |
| - Other receivables | 20.5 | 15.0 | 20.7 |
| Other receivables | 45.3 | 35.2 | 42.4 |
| Investment in associate | 36.5 | 26.6 | 59.4 |
| Property, plant and equipment | 2.0 | 3.2 | 2.6 |
| Deferred acquisition costs | 80.9 | 92.4 | 76.7 |
| Intangible assets | 153.8 | 153.8 | 153.8 |
| **Total assets** | **2,983.7** | **2,914.3** | **2,896.0** |
| **Liabilities** | | | |
| Insurance contracts | | | |
| - Losses and loss adjustment expenses | 826.8 | 648.0 | 933.5 |
| - Unearned premiums | 438.4 | 456.8 | 350.9 |
| - Other payables | 39.9 | 47.7 | 40.7 |
| Amounts payable to reinsurers | 113.2 | 86.0 | 65.5 |
| Deferred acquisition costs ceded | 4.3 | 1.7 | 2.5 |
| Other payables | 67.6 | 66.3 | 48.0 |
| Corporation tax payable | 0.3 | 0.2 | 2.8 |
| Deferred tax liability | 14.9 | 18.8 | 16.5 |
| Interest rate swap | 0.1 | 3.4 | 2.0 |
| Long-term debt | 325.1 | 324.1 | 326.3 |
| **Total liabilities** | **1,830.6** | **1,653.0** | **1,788.7** |
| **Shareholders' equity** | | | |
| Share capital | 100.7 | 100.7 | 100.7 |
| Own shares | (5.0) | (13.1) | (12.1) |
| Other reserves | 860.6 | 870.6 | 866.2 |
| Accumulated other comprehensive loss | (12.9) | (0.3) | (1.5) |
| Retained earnings | 209.4 | 303.2 | 153.6 |
| **Total shareholders' equity attributable to equity shareholders of LHL** | **1,152.8** | **1,261.1** | **1,106.9** |
| Non-controlling interest | 0.3 | 0.2 | 0.4 |
| **Total shareholders' equity** | **1,153.1** | **1,261.3** | **1,107.3** |
| **Total liabilities and shareholders' equity** | **2,983.7** | **2,914.3** | **2,896.0** |
| | | | |
| Basic book value per share | $5.74 | $6.31 | $5.53 |
| Fully converted book value per share | $5.70 | $6.23 | $5.48 |

## Consolidated statements of cash flows

| | Six months 2018 $m | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Profit (loss) before tax | 74.9 | 66.7 | (72.9) |
| Tax (paid) refunded | (3.3) | 1.3 | 1.3 |
| Depreciation | 0.7 | 1.0 | 1.8 |
| Interest expense on long-term debt | 8.8 | 8.1 | 16.4 |
| Interest and dividend income | (17.5) | (18.6) | (37.1) |
| Net amortisation of fixed maturity securities | 0.3 | 1.8 | 2.8 |
| Equity based compensation | 3.8 | 2.8 | (0.4) |
| Foreign exchange (gains) losses | (0.2) | 5.7 | 9.4 |
| Share of loss (profit) of associate | 2.4 | (1.4) | 9.4 |
| Net other investment (income) losses | (3.1) | 1.9 | (1.2) |
| Net realised losses (gains) and impairments | 2.0 | (8.1) | (9.1) |
| Net unrealised gains on interest rate swaps | (1.9) | (0.3) | (1.7) |
| Changes in operational assets and liabilities | | | |
| - Insurance and reinsurance contracts | (87.3) | (82.9) | 52.0 |
| - Other assets and liabilities | 17.0 | 5.8 | (9.4) |
| **Net cash flows used in operating activities** | **(3.4)** | **(16.2)** | **(38.7)** |
| **Cash flows (used in) from investing activities** | | | |
| Interest and dividends received | 16.9 | 18.5 | 37.6 |
| Purchase of property, plant and equipment | (0.1) | (0.1) | (0.6) |
| Investment in associate | 20.5 | 24.5 | (19.1) |
| Purchase of investments | (493.5) | (598.9) | (1,196.1) |
| Proceeds on sale of investments | 447.5 | 570.8 | 1,209.5 |
| **Net cash flows (used in) from investing activities** | **(8.7)** | **14.8** | **31.3** |
| **Cash flows used in financing activities** | | | |
| Interest paid | (8.8) | (8.1) | (16.3) |
| Dividends paid | (20.0) | (19.9) | (29.9) |
| Dividends paid to minority interest holders | – | (0.6) | (0.6) |
| Distributions by trust | (2.5) | (3.7) | (3.9) |
| **Net cash flows used in financing activities** | **(31.3)** | **(32.3)** | **(50.7)** |
| **Net decrease in cash and cash equivalents** | **(43.4)** | **(33.7)** | **(58.1)** |
| Cash and cash equivalents at the beginning of year | 256.5 | 308.8 | 308.8 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (0.7) | 3.6 | 5.8 |
| **Cash and cash equivalents at end of period** | **212.4** | **278.7** | **256.5** |