lancashire
HOLDINGS LIMITED

Annual Report & Accounts 2015

Sticking to our *game plan*

In this report

Visit our corporate website for more information:
http://www.lancashiregroup.com

Highlights

RETURN ON EQUITY*

10.9%

(2014: 13.9%)

KPI

COMBINED RATIO

72.1%

(2014: 68.7%)

KPI

PROFIT AFTER TAX

$181.1m

(2014: $229.3m)

DIVIDEND YIELD

17.3%

(2014: 17.8%)

TOTAL INVESTMENT RETURN

0.7%

(2014: 1.0%)

KPI

TOTAL SHAREHOLDER RETURN

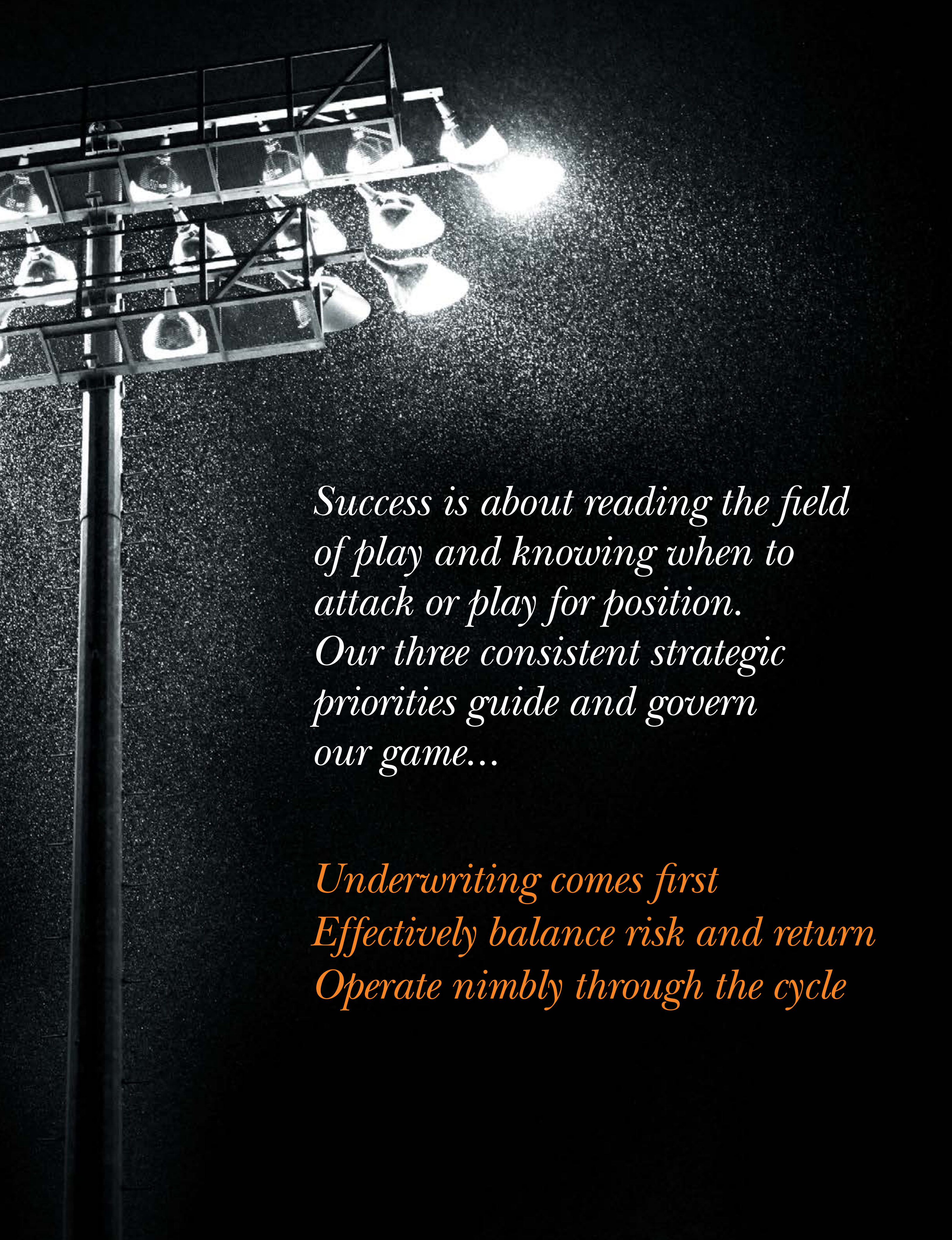
25.9%

(2014: -24.2%)

KPI

---

* RoE excluding the impact of warrants in 2015 was 13.5% (2014: 14.7%)



Success is about reading the field of play and knowing when to attack or play for position. Our three consistent strategic priorities guide and govern our game…

Underwriting comes first
Effectively balance risk and return
Operate nimbly through the cycle

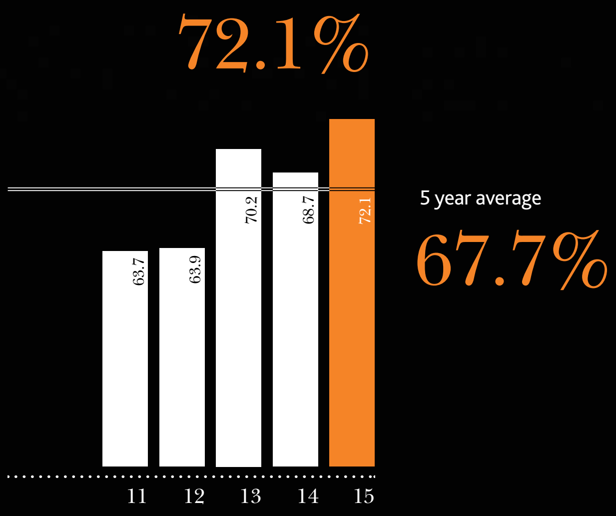
Underwriting comes first

Creativity

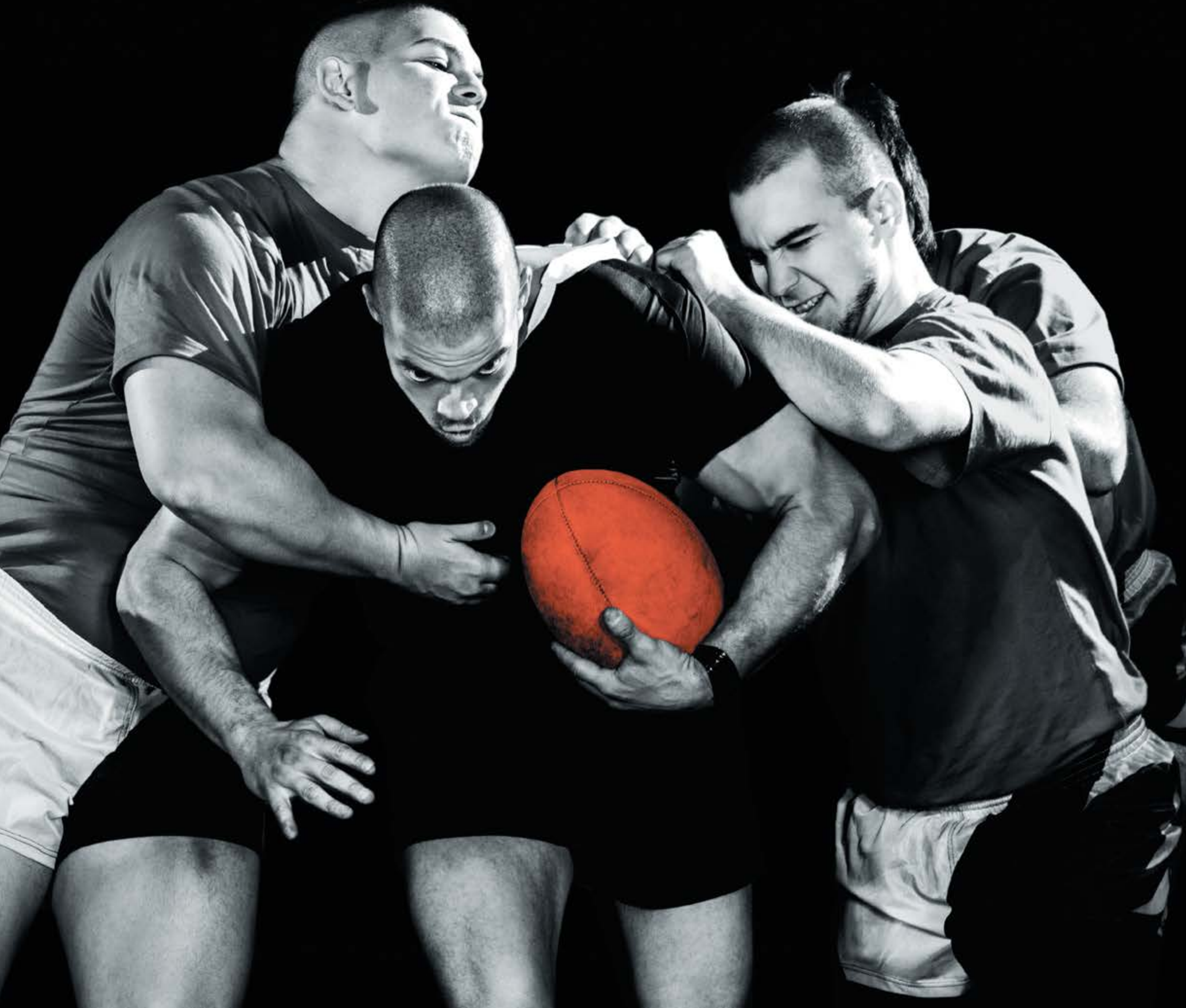
In rugby, getting the balance right between the discipline of the forwards and the creativity of the backs is key. For us, maintaining underwriting discipline in challenging markets means we continue to produce a leading combined ratio. We remain creative in being able to provide tailored insurance and reinsurance products to our clients across the three platforms of our business.

COMBINED RATIO

The Group's combined ratio has always been below 100%, despite the softening market rates of recent years, and Lancashire has consistently achieved combined ratios which have led the market.



Discipline



Effectively balance risk and return

Sticking to our game plan means not seeking top line growth for the sake of it in markets where we do not believe the right opportunities exist. We work hard to maintain the profitability on our core book of business. Effective capital management also allows us to deliver meaningful returns to our shareholders.

Risk

PROFIT AFTER TAX

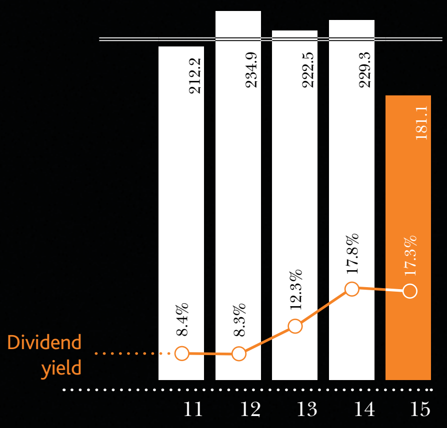
We aim to be profitable four years out of five, but in fact we have made a profit in each of the ten years of our existence.

$181.1m

DIVIDEND YIELD

We pay annual ordinary dividends, and when we cannot utilise our profits by retaining them as additional capital we return them to shareholders by way of special dividends.

17.3%



Profit after tax
5 year average

$216m

Reward

Operate nimbly through the cycle

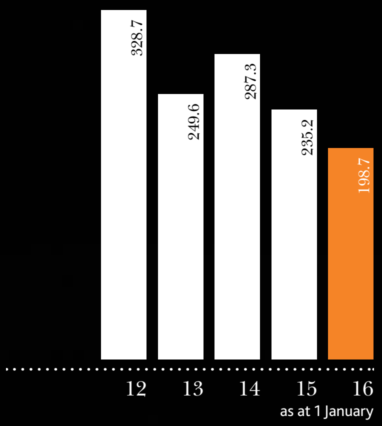
Strength

Our outwards reinsurance programme provides a breadth and depth of cover which has helped us to strengthen our position and manage volatility. This helps us to continue to underwrite our core portfolio through the challenges posed by the cycle.

PROBABLE MAXIMUM LOSS

PMLs are a reasonable proxy for the relative amounts of risk we are retaining across the cycle. In the current environment we have continued to bring risk levels down, largely through the use of additional reinsurance. The table shows our 1 in 100 year Gulf of Mexico expected net loss at 1 January in each year.

$198.7m



Agility

OUR STRONG AND CLEAR INVESTMENT PROPOSITION

Even in difficult markets, the Lancashire Group continues to deliver strong and consistent returns. Our goal remains to provide a relatively attractive, risk-adjusted return to shareholders over the long term. We achieve this by focusing on underwriting risk selection, maintaining our underwriting discipline and managing our capital to suit market opportunities.

Through all the significant market events since its establishment ten years ago, the Lancashire Group remains a top-performing specialty, short-tail insurer and reinsurer delivering leading combined ratios and returns on equity. Our message of "underwriting comes first" remains as relevant today as it did when we began; and our continued discipline and commitment to focus on drivers of profitability allow us to remain as a strong and relevant counterparty for our clients and brokers and to continue to deliver strong returns for our shareholders.

Performance incentives for management and staff are aligned to shareholders' interests so our focus remains on maintaining profitability and returning capital to shareholders in the right market conditions. We seek to optimise capital and are well positioned to take advantage of the market in a post loss scenario.

OPERATING HIGHLIGHTS

- Maintained our core portfolio despite difficult market conditions and trading environment.
- Able to buy broader and deeper reinsurance protection across the Group to protect our core book.
- Our investment portfolio has produced a positive return and has remained resilient in the face of turbulent financial markets during the course of 2015.
- As we continue with work on the development and integration of our three business platforms we have benefitted from a greater financial contribution from Cathedral during the year. There were no acquisition costs to amortise in 2015, with both syndicates performing well and having large prior year reserve releases.
- Kinesis has continued to expand its "investor club" and has completed further capital raises during the course of the year.
- The Group was fully prepared for the introduction of the Solvency II regime in 2016 and Group Supervision from the PRA.

FINANCIAL HIGHLIGHTS

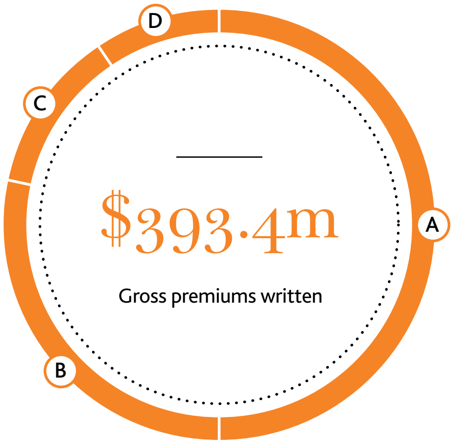
- Combined ratio of 72.1 per cent, yet again one of the leading combined ratios in our peer group, reflecting solid underwriting and expense control.
- Loss ratio for 2015 of 27.5 per cent, another strong performance in a year with a number of medium-sized risk and catastrophe losses.
- Favourable loss reserve development on prior year losses totalled $107.7 million for the year.
- Gross premiums written of $641.1 million with a contribution of $247.7 million from Cathedral.
- Kinesis deployment of $299.5 million of limits with capital raised on two occasions during the year.
- Investment return of 0.7 per cent reflecting emphasis on limiting risk in volatile markets.

LANCASHIRE IS A BESPOKE SPECIALTY INSURER/REINSURER OPERATING ACROSS THREE PLATFORMS

OUR THREE PLATFORMS

LANCASHIRE

Two operating companies covering the London and Bermuda markets with strong core business portfolios, recognised leadership capability and the ability to deploy capacity nimbly in a changing market across four classes.



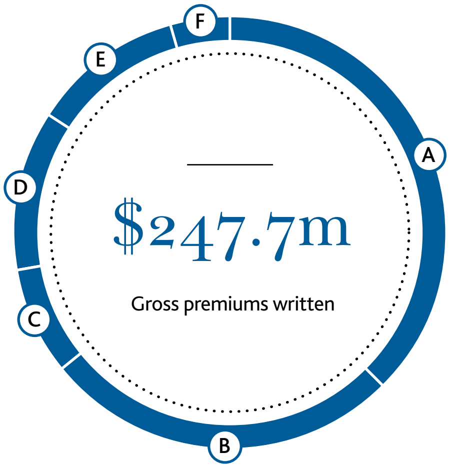
Portfolio breakdown

A: Property: 50.1%
B: Energy: 28.5%
C: Marine: 12.1%
D: Aviation: 9.3%

Page 30
Read about the Lancashire companies

CATHEDRAL

Two syndicates in Lloyd's with mature portfolios of short-tail business in the same classes as Lancashire, but separate niches, allowing further diversification of the business and client base. Access to Lloyd's unique capital structure and world-wide licences.



Portfolio breakdown

A: Property Re: 37.5%
B: Property Direct: 26.7%
C: Energy: 8.1%
D: Marine: 11.9%
E: Aviation: 11.5%
F: Other: 4.3%

Page 37
Read about Cathedral

KINESIS

A third-party capital and underwriting manager in Bermuda, leveraging the Group's expertise, infrastructure and track record to offer unique multi-class products to clients and investors, with scope to develop more products as the market evolves.

Page 38
Read about Kinesis

INTERVIEW WITH MARTIN THOMAS

25.9%
Total shareholder return

17.3%
Dividend yield

Lancashire has faced yet another year of challenging underwriting conditions. Against this background our strategic priorities have been essentially defensive in nature, and consistent with what we have done in the past – to maintain a core book of business and to focus on the fundamentals of good underwriting.

Q What have been the strategic challenges for 2015?

Achieving the right balance of risk and return is important when taking any strategic decision.

Lancashire has faced yet another year of challenging underwriting conditions. Against this background our strategic priorities have been essentially defensive in nature, and consistent with what we have done in the past – i.e. to maintain a core book of business and to focus on the fundamentals of good underwriting. The Board has not required management to seek out top-line growth through speculative new products or structures, as some businesses have done in this market. As is described elsewhere in this report, our priorities have been to provide excellent underwriting products and services to our core insurance and reinsurance clients, and their brokers, and to support the relationships that we have built up over many years. In this environment, where insurance and reinsurance pricing has been falling, as a Board we have been comfortable witnessing Alex and the management team de-risking the business, in particular through the purchase of additional and better priced outwards reinsurance coverage. In doing this we have had one eye on the cyclical nature of the insurance and reinsurance markets. The Group operates a lean business, with a global headcount of less than 200 employees, and we have the ability to shrink and grow our capital base in line with market opportunities. The Board has been happy to adopt this more defensive strategy during 2015, secure in the knowledge that when opportunities do arise we will have the expertise, relationships and the resources at hand to capitalise on them.

Lancashire believes that its relevance to its clients and brokers is not due to the complexity of its administration and structure or the size of its capital base, but rather its expertise and commitment to excellence in underwriting.

The Group operates a lean business, with a global headcount of less than 200 employees, and we have the ability to shrink and grow our capital base in line with market opportunities.

Q Have the 2015 financial results been in line with expectations?

Given the difficult trading environment, I am pleased with our RoE of 10.9 per cent, warrant adjusted 13.5 per cent, for 2015. Net earned premium for the Group was $567.1 million for 2015, which compares with $715.6 million for 2014. This decrease is principally a reflection of reduced pricing and lower renewals in a number of our core classes of business, in particular the energy lines, as we focus on underwriting profitable business rather than top line growth. Despite the volatile financial markets of 2015, the Group's total investment return for the year was $14.4 million. Although down from $22.0 million in 2014, this reflects our conservative investment positioning across asset classes, which has paid off in difficult markets. The combined ratio of 72.1 per cent is an excellent result. I am also pleased with the performance of Cathedral, which contributed 3.5 per cent to RoE during 2015 and has demonstrated an impressive resilience in tough markets.

Kinesis has recently underwritten its third January cycle of multi-class reinsurance products and has now established a high calibre portfolio of cedants and investors. Kinesis remains well-placed to capitalise on any changes in the reinsurance markets at such time as the opportunity may arise.

> *It remains a core part of the Board's strategy to flex the Group's capital base in such a way that capital which we cannot deploy profitably is returned to shareholders.*

Q | *What is the Board's approach to dividend payments and capital management?*

The Board is pleased to have declared ordinary and special dividends in respect of 2015 amounting in total to $1.10 per common share. It has for some years now been our mantra that Lancashire tailors its capital requirements to the underwriting and business opportunities available to it. This year we have returned a total of $316.0 million to shareholders, which significantly exceeds the Group's profit after tax for the year of $181.1 million. It remains a core part of the Board's strategy to flex the Group's capital base in such a way that capital which we cannot deploy profitably is returned to shareholders. An important element to this active capital management strategy employed by the Board is the flexibility afforded to us by shareholders to issue up to 15 per cent of Lancashire's shares on a non pre-emptive basis. The best opportunities in the insurance and reinsurance sectors arise following major loss events, and the flexibility afforded to the Board, which would allow it to issue shares quickly to raise capital so as to maximise such opportunities for the business, is a central pillar of our business strategy. Once again the Company is seeking shareholder support for a resolution at the 2016 AGM allowing this capital management flexibility, and I would encourage all shareholders to vote in favour.

Q | *What differentiates Lancashire from its peers?*

During the last year we witnessed a wave of mergers and acquisitions within the insurance and reinsurance sector. The rationale for many of these appears to have been to create cost and capital efficiencies for businesses, most of which have had complex international networks and operations and, in the current market, have found themselves struggling to make meaningful returns. Lancashire believes that its relevance to its clients and brokers is not due to the complexity of its administration and structure or the size of its capital base, but rather its expertise and commitment to excellence in underwriting. Within the classes of business in which we operate, Lancashire provides leadership and technical underwriting skills which ensure its relevance to clients and brokers alike. We remain committed to this business model, and for this reason we believe that Lancashire need not participate in the mergers and acquisitions roundabout, since it does not suffer from the structural problems which have driven the latest round of consolidation within our sector.

> *Within the classes of business in which we operate, Lancashire provides leadership and technical underwriting skills which ensure its relevance to clients and brokers alike.*

Q *What plans does the business have for Board planning and succession?*

In last year's Annual Report and Accounts I was able to report the appointment of two new Directors to the Board, namely Peter Clarke and Tom Milligan. Consequently, 2015 was a year for consolidation on the Board, and I have been pleased with the mix of skills and perspectives which we now have in the Boardroom. Of all our Board members, I am now the longest serving, having been first appointed to the Board in 2006, becoming Chairman in 2007. Having served the Board and the business since the early days following its foundation in 2005, I have decided that the time is now right for me to step down from my role as Chairman and Director. The Board as a whole has considered the matter of succession to the Chairmanship, and I am delighted to report that Peter Clarke, with the full support of the Board, has agreed to become Chairman following the 2016 AGM, at which point I will retire from the Board. The business will be in excellent hands with Peter as Chairman of the Board and Alex as CEO and I wish them well. I would also like to thank all those people within the Group with whom I have worked over many years. The exceptional success of Lancashire as a business is principally due to the expertise and dedication of its people, and it has been a privilege and a pleasure for me to share in that common enterprise.

Martin Thomas
Non-Executive Chairman

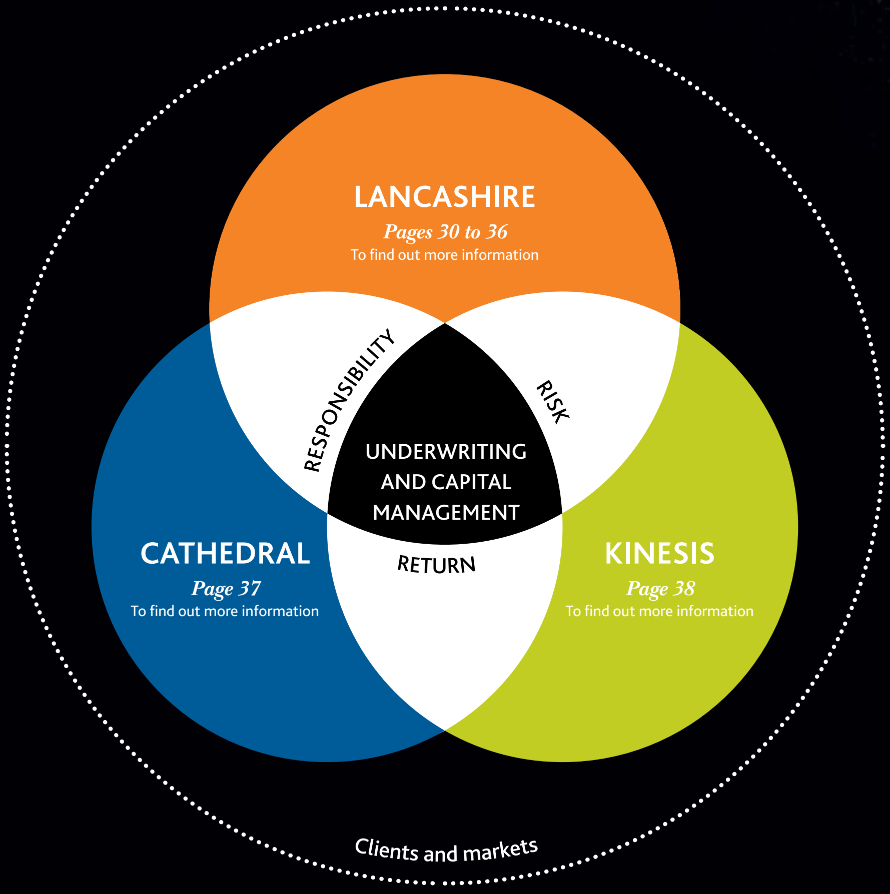
Q *What challenges and opportunities do you see for the year ahead?*

On a personal level I am delighted to be able to take over the leadership of the Board of a business which has achieved sector beating results over the last decade. The Group is well positioned to weather the challenges of a difficult underwriting and macroeconomic environment. Against this backdrop the principal challenge for the Board and the business is to ensure that we maintain a dynamic culture capable of maximising the right opportunities in the market at such time as they may arise. This will require patience and a tight focus on our strategic priorities of a balanced approach to risk and return, a commitment to excellence in underwriting and the flexibility and nimbleness to address the changing challenges of the underwriting cycle. I look forward to working with the Board, the management team and everyone working in the business over the years ahead.

Peter Clarke
Non-Executive Chairman designate

THREE PLATFORMS, ONE COMMON GOAL

We leverage our deep underwriting expertise with efficient management of capital and resources across our three platforms to provide our clients and brokers with excellent solutions for their insurance and reinsurance needs. We always focus on the risk-adjusted return.



OUR RESPONSIBILITY

We recognise that our responsibility as a company and as individuals reaches wider than our shareholders and our clients. We strive to be a good employer, a good corporate citizen and a responsible preserver of resources. Through the Lancashire Foundation, we make substantial financial contributions and provide human support to a number of good causes in the places we operate and around the world (for further details see pages 44 to 49).

	LANCASHIRE	CATHEDRAL	KINESIS
Key Strengths	• Strong brand with clients and brokers • Recognised for significant capacity and strong leadership ability in well-defined business sectors • Proven track record of supplying capacity across the cycle with sector-leading profitable results • A lean business operation allows us to remain nimble and make decisions efficiently • A profitable core book of business and disciplined underwriting allows us to produce an excellent combined ratio • Strong record of capital management actions to optimise and adjust capital and navigate market cycles • Experienced management team with proven ability	• Strong brand with core clients and brokers • Recognised for long-term consistency of relationships • Efficient Lloyd's capital model allowing greater premium leverage than for rated companies • Worldwide licensing maintained by Lloyd's allows Cathedral to write business worldwide with limited regulatory overheads • Use of world's oldest insurance third-party capital – the Names – who pay underwriting fees, costs and profit commission • Operates two active syndicates, following the build out of Syndicate 3010	• Ability to leverage Group data, relationships and reputation with investors and clients • Experienced, fully dedicated management with strong relationships amongst clients, brokers and investors • Highly specialised multi-class product with strong barriers to entry in terms of data and modeling expertise • Ability to raise and deploy capital very quickly • Expanding investor base following a strong underwriting performance since the first capital raise for 2014 risks • Proven track record with Kinesis now in its third year
Goals	• Maintain key client, broker and reinsurer relationships to ensure the continued flow of business and maintenance of capabilities • Continue to improve use of reinsurance and retrocession to uphold risk-adjusted balance in softening markets • Retain "underwriting comes first" culture and discipline without being tempted into innovation or diversification for its own sake	• Maintain core portfolios in the syndicates in a climate of increased competition • Continue to look for new opportunities for bolt on business lines in both syndicates • Leverage the Group's balance sheet and cross sell where opportunities arise	• Ensure product is correctly calibrated to meet clients' needs in terms of responding to events and capital relief • Deliver returns in line with expectations for modeled ranges given market losses and pricing • Continue to increase investor club members • Source reinsurance opportunities and provide bespoke and flexible products to match investor appetite
Risk	• Continued influx of new capacity, some from naïve or inexperienced capital, and further development of broker facilities with less robust underwriting controls • Continuing rate pressures in softening markets • Widening terms and conditions being accepted by the insurance market without adequate pricing or exclusions	• Pressure on signings and participation given relatively small line sizes although counterbalanced by strength of broker and client relationships • Expanded burden of regulatory oversight or overlapping regulation from Lloyd's, the PRA and the FCA	• Increased competition from traditional and collateralised markets being displaced from property retrocession, with attempts to replicate the Kinesis product • Waning of investor interest in insurance allocations if interest rates begin to increase and yields return to capital markets • Client resistance to complex products, given cheap availability of traditional products
Return	**71.3%** Lancashire Companies' combined ratio	**73.6%** Cathedral's combined ratio	**$299.5m** Kinesis limits deployed

72.1%
Combined ratio

27.5%
Loss ratio

10.9%
Return on equity*

* RoE excluding the impact of warrants in 2015 was 13.5%

INTERVIEW WITH ALEX MALONEY

> *Good underwriting remains paramount, as does our ability to act quickly and nimbly to changing conditions and our preparedness to closely match our capital to the opportunities available.*

Q | *What have the challenges been in 2015?*

Having worked in the insurance business for the last 25 years it is my view that 2015 has been the most challenging calendar year for the whole insurance industry that we have seen for at least a decade. The insurance industry as a whole has seen a further accumulation of capital; this stems from yet another benign year for catastrophe losses, resulting in pressure on premium pricing and the terms and conditions of coverage. Several insurers have been involved in merger and acquisition activity, which is in part a response to falling margins and the perceived need amongst some of our competitors to rationalise their larger and more complex operations and infrastructures. The broking community has not been immune to these pressures and has continued both to consolidate its operations and to innovate with new products and methods of distribution, which might be regarded as having been designed to generate new income streams for the brokers themselves, rather than serving the insurance needs of the market. Into this mix must be added the continuing commercial pressure on our clients, particularly in the oil and gas industries, where the dramatic fall in the oil price has resulted in less exploration and development activity, as well as economic pressure on our clients' existing operations and asset prices and a corresponding drop-off in the demand for insurance coverage. Whilst our return on equity is 10.9 per cent, the warrant adjusted return on equity of 13.5 per cent is a better reflection of our underwriting results. This, together with our combined ratio of 72.1 per cent for the year, demonstrates our ability as a business to pick our team and adapt our game plan to these harsh playing conditions. Against this backdrop I am delighted with our financial performance.

Q | *How has the business responded to the difficult market?*

Our strategic priorities are engrained within our own business and people and are also now well understood by our investors and stakeholders. Good underwriting (our basic skill set) remains paramount, as does our ability to act quickly and nimbly to changing conditions and our preparedness to closely match our capital to the opportunities available. Our global headcount remains less than 200, which means that as a business we remain able to avoid the cost and complexity of our larger competitors and to adapt our risk profile to market conditions. In a market where the price for assuming risk has been falling, we have reduced our risk levels. This takes discipline. We have had to take hard decisions to turn down badly-priced business and we have reduced our inwards exposures where required. On the bright side, the reduction in the pricing of risk has created excellent opportunities on the reinsurance purchasing side. This combination of inwards underwriting discipline and better priced and broader outwards reinsurance coverage has enabled us to de-risk our overall portfolio. Our Cathedral business, which we acquired during 2013, has helped give strength and breadth to the core business of the Group. Its contribution to Group profits of $46.0 million and its impressive combined ratio of 73.6 per cent for the year illustrate the quality and discipline which have always been characteristic of our Group. The year on year decline in our net premium income is not an exciting story to tell, but it is the mark of a business which adapts its strategy so as to flex its capital and risk profile to deliver a solid risk adjusted return to its shareholders. A more detailed analysis of market conditions can be found in the Underwriting Review on pages 28 to 29.

Q | *Does Lancashire have the size to remain relevant to clients and brokers?*

There has been a tendency amongst commentators and analysts to equate the "relevance" of an insurance company to the size of its capital base. That is a superficially attractive argument, but it is flawed. Whilst the balance sheet size of an insurer is important, it is not the only factor in the decision of brokers and clients when placing insurance risks. Our brokers come to us, whether that be through our London or Bermuda Lancashire platforms, through Cathedral at Lloyd's, or through Kinesis, because we employ leading specialty underwriters in the fields in which we underwrite. Our underwriters understand the needs of the brokers and our clients and have the standing and ability to act as leaders in the negotiation of pricing and coverage terms and to service with excellence the ongoing needs of our clients. We may not always be the cheapest, or have the biggest balance sheet, but you get what you pay for and we do pride ourselves on being the leaders in those classes within which we operate. As a Group we do not wish to create a worldwide network. We have a strong presence in the London and Bermuda markets and we are supportive of those markets and the related broker distribution networks, which we consider to be world-leading in their capabilities and expertise. Our priority is to maintain a tightly focused and relatively small business without the distractions and overheads of multiple foreign offices and operations. Lancashire is a business which prides itself on its underwriting expertise, its excellence of service and its ability to adapt its capital base to the opportunities in any given market. I have recently met with all of our largest shareholders and I am confident that they understand the challenges of the current market and our strategic response, which ensures our continuing relevance to our clients, our brokers and all our stakeholders.

Q | *You have chosen a rugby theme for this Annual Report – why is that?*

Rugby has been a lifelong love for me. I have enjoyed the game both as a player and as a supporter. It is the ultimate team sport and a game in which success, whilst drawing on individual talent, is ultimately built on teamwork. That is how I see our Group. As a team we value the contribution of all the members, and I hope that we encourage a culture where we are not reliant on one or two star signings, but on a bench strength of home grown talent. We also place value on clear and rapid communication, a prime example of that being Lancashire's daily underwriting call where all our Lancashire underwriters, however experienced, have the opportunity to consider all the risks being evaluated by our business – whether in London or Bermuda. Any team has to adapt rapidly, to play the pitch, weather conditions and the particular strengths and weaknesses of any opponent as they are found. The challenges of the current insurance market dictate to us as a business that we modify our game plan to the conditions of play. As with any good team, we assess the relative risks and rewards and we consider when to adopt a defensive strategy and when to attack. From time to time we may suffer setbacks, but our objective is to create a business capable of succeeding year upon year, whatever challenges we may face.

Q | *How do you think the market will change during 2016?*

The fundamentals of our business don't change. The market is driven by the forces of supply and demand and, absent a major market moving catastrophe loss event, I anticipate that there will continue to be an oversupply of underwriting capacity across the industry in 2016. Generating returns will remain difficult in this soft part of the cycle. As a Group we will continue to adapt to these market conditions, but I am suspicious of some of the recent innovations in the market, including broker facilities, the rapid growth in cyber coverage pursued by some of our competitors and the use of disruptive technologies to create new platforms for distribution. All of these have their associated risks and my gut instinct is to proceed with extreme caution and to focus on our traditional skills. So for 2016 we will work to provide an acceptable return on our investors' capital, driven by our view of risk and capital requirements in response to market conditions.

Q | *Where do you see the business in the longer term?*

Our Group has the structure and expertise to implement our current nimble strategy as a bespoke provider of specialty insurance and reinsurance. We have carefully and consistently developed this strategy since Lancashire's inception in 2005. My vision is to continue to build the best bespoke specialty (re)insurance company in the world by retaining and recruiting best in breed underwriters across a number of specialty insurance and reinsurance classes. Over the next few years we will look to consolidate our existing core book of business and to grow organically other specialty lines, but only where the right opportunities present themselves. We will continue to optimise the use of our different underwriting platforms at Lloyd's, in London and Bermuda and through Kinesis, our third-party capital facility. We plan to keep the headcount small, maintaining a tight control over business costs. Perhaps most importantly, I want to build and consolidate a group of talented people with individual expertise and a strong sense of their place in the overall Lancashire team and a shared understanding of our strategic goals.

> Our underwriters understand the needs of the brokers and our clients and have the standing and ability to act as leaders in the negotiation of pricing and coverage terms and to service with excellence the ongoing needs of our clients.

In closing, I must mention Martin Thomas, our Chairman, who is stepping down at this year's AGM having served the Group for over nine years. I have enjoyed working with Martin and I have valued his support and insight – as well as his constructive challenge. Martin has been an excellent Chairman and member of the LHL Board and has helped guide our Board and business through both challenging and exciting times to establish Lancashire as one of the most successful and respected specialty insurance and reinsurance groups listed on the LSE. We will continue to work together until the 2016 AGM, when I will look forward to working with Peter Clarke, an existing member of our Board and the designated new Chairman. But I would like to take this opportunity to thank Martin for his exceptional contribution to the success of Lancashire.

Alex Maloney
Group Chief Executive Officer

INTRODUCTION TO STRATEGY

Over our ten year history our strategic objectives have remained unchanged. How we implement that strategy adapts as the market forces to which we find ourselves subject on the field of play ebb and flow. By adopting this active fluidity of approach we demonstrate the importance of one of the three cornerstones of our strategy: to operate nimbly through the cycle.

The market we find ourselves in today is a very different one from when we started ten years ago. In all of our lines of business, rates have declined and margins are under more pressure than at any time in our history. In order to effectively balance risk and return our approach is different over time. In very simple terms we get paid less now than in prior years for assuming the same risk – so we therefore adjust our risk levels down accordingly. We have consolidated our core portfolio of business and defended this book whilst at the same time protecting the balance sheet with broader and deeper reinsurance coverage. This year we have continued to manage down the volatility within the Group's underwriting portfolio as margins reduce. We still accept risk, as this is what we do. But we carefully manage the risk levels we accept, to reflect the market we see.

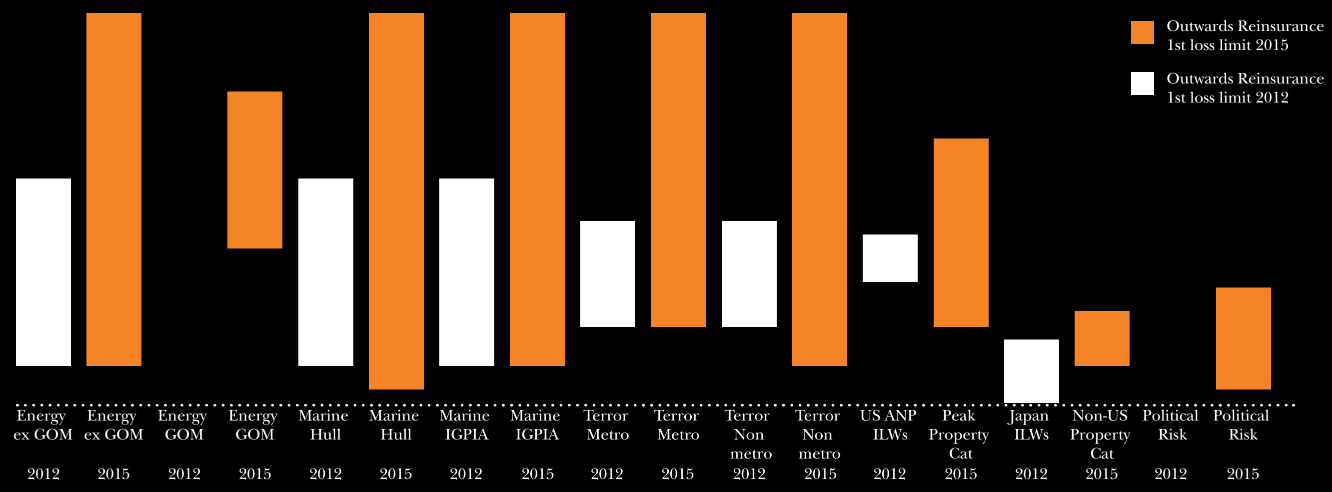
In soft markets premiums inevitably come under pressure. Even maintaining constant risk levels will deliver lower premium volumes as rates soften. In these markets there is a natural tendency to lose sight of basic underwriting principles and focus on premium income rather than underwriting profitability. To maintain underwriting discipline you need to accept that premiums will shrink. We believe that, ultimately, underwriting profitability should remain the focus. Why write more risk when the return for that risk is less? This can seem counterintuitive given the obvious but superficial attraction of maintaining premium levels. Our team of underwriters shares this view of the importance of careful risk selection rather than top-line growth and our principal focus is on generating underwriting profit. This sharp strategic focus is demonstrated by a combined ratio of 72.1 per cent. At Lancashire, underwriting always comes first.

Another temptation when premiums are reducing is to enter markets or underwrite products that are new and fashionable. Again, we tend not to be swayed by fashion. If we can understand the risk, or bring in best in breed underwriting teams that understand the risk, then we will expand the business. What we will not do is enter new classes purely to replace lost revenue across other areas of the portfolio.

It is fair to describe our underwriting strategy in this market as defensive. We feel that a defensive strategy is the correct one, and we are fortunate to have a portfolio of business with long-term blue chip clients that allows us to take this stance. We are very grateful for the support that both our clients and brokers have shown to the Group over the past year and throughout our ten year history, and we look forward to working with them for another ten years and beyond.

We wait patiently for the time when the market is in a more favourable position than it is today. In the meantime we will do everything we can to capitalise on the expertise and relationships we as a business have nurtured and to make sure the Group is best positioned for when these better times return.

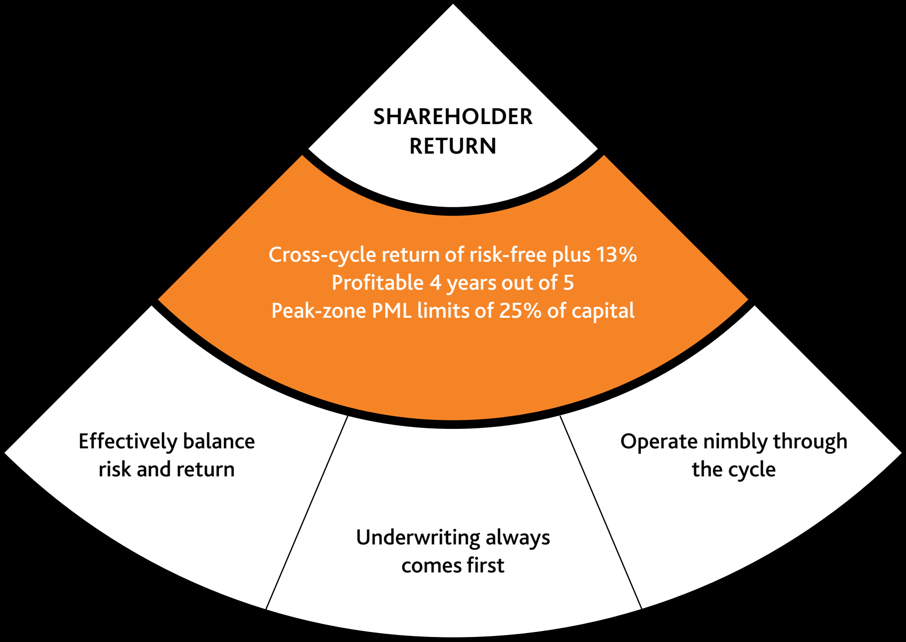
LANCASHIRE FIRST LOSS XL LIMIT ILLUSTRATION 2012 VS 2015



CONSISTENCY IN STRATEGIC DIRECTION OVER TIME

Our strategy

We have three strategic aims that enable us to meet our goal of providing an attractive risk-adjusted return to our shareholders. We put underwriting at the forefront of all that we do, we focus on getting the right balance between risk and return and we ensure that we can react nimbly to an ever-changing market. This enables us to serve our clients and brokers with significant capacity across the cycle, not just in the core business we aim to renew every year, but also in times or in areas where capacity is scarce: the opportunistic part of our portfolio. We keep our structure lean and overheads under strict control so that we can refocus our resources quickly. And we test our assumptions and performance constantly through our structure using daily underwriting calls or exception reporting to management, a fortnightly Risk and Return Committee meeting with all disciplines within the Group represented, and a series of supporting underwriting, operational, compliance, investment and finance committees. Around this our risk function and internal audit supply challenge and assurance to management and the Board through a simple and continuous reporting process.



OUR CULTURE – THE BEDROCK OF OUR STRATEGY

Lancashire encourages a culture of co-operation and respect based on open challenge. This can be seen clearly in the LICL and LUK daily underwriting call where senior and junior underwriters debate the risks they want to write and their fit to the portfolio and market. It also characterises the Group-wide Risk and Return Committee which brings together underwriting, actuarial, finance and treasury and risk to challenge the assumptions used in all areas of our planning and measuring the business.

Description

UNDERWRITING ALWAYS COMES FIRST

We employ 34 underwriters across the Group, many of them with decades of experience, and supply them with analytical tools to assess which business best fits our portfolios. We look for profitable new opportunities helping us to remain relevant to our brokers and clients.

EFFECTIVELY BALANCE RISK AND RETURN

By bringing together all our disciplines – underwriting, actuarial, modeling, finance, treasury, risk and operations – at our fortnightly RRC meetings, we are able to look at how different parts of our operations are working together. We stress test our business plans and gauge where we can be most effective without undue volatility.

OPERATE NIMBLY THROUGH THE CYCLE

As capital continues to accumulate in the (re)insurance market, the need to be nimble is more important than ever. This means being ready to deploy capital quickly when it is needed, and having the discipline to return it when it is not.

Achievements in 2015	*Performance*		*Associated strategic risks*
We have reduced our written premium and PMLs by turning down under-priced business, whilst retaining our core book. We have grown the number of Kinesis investors to ten and the number of cedants to ten, whilst deploying $299.5 million of limits.	**Combined Ratio** KPI 72.1% Still a leading combined ratio, even in difficult markets, evidencing the continued focus on underwriting, portfolio construction and superior risk selection.	**Gross premiums written** $641.1m We saw a significant contribution from Cathedral in 2015 as we focused on protecting our core portfolios, but maintained the discipline to decline or re-structure our participation on under-priced or poorly performing business.	The key risk in the current market phase is the loss of relevance to brokers and clients; with so much surplus capacity, insurers need to have a unique selling point. For Lancashire that is found in its mixture of capacity, leadership capability, significant reinsurance expenditure and multiple balance sheet options.
We have had to reduce income in some areas of our business in response to market weakening. But we have been able to find substantial outwards reinsurance opportunities that allow us to mitigate some of the effects of price reductions, and reduce our net exposures until the time is right for us to retain more risk.	**Return on Equity*** KPI 10.9% A good result despite a challenging market and the incidence of risk losses, helped by our improved outwards reinsurance programme. * RoE excluding the impact of warrants in 2015 was 13.5%.	**Probable Maximum Loss** $198.7m* We continued to reduce our exposure to key catastrophe perils as the market has become more competitive, demonstrating our discipline and nimbleness. * 1 in 100 year Gulf of Mexico Hurricane expected net loss at 1 January 2016.	The key issue for Lancashire is to continue to serve our clients and brokers with significant capacity, whilst ensuring that the portfolio is not unbalanced. This means constantly re-assessing our business mix, and testing key risk assumptions.
Lancashire renewed its 15 per cent disapplication of pre-emption rights to smooth potential future capital raises.	**Percentage of comprehensive income returned to shareholders** KPI 187.0% Lancashire continues to exercise the discipline of giving back capital it cannot profitably deploy, but remains open to new opportunities such as those developed in Syndicate 3010.	**Dividend Yield** 17.3% Whilst buying back shares can be a part of right-sizing capital, special dividends allow Lancashire to make substantial capital returns quickly when justified.	Lancashire has developed an expectation among its stakeholders that it will produce a consistent return and pay ordinary dividends and special dividends when it makes sense to do so. Lancashire has to ensure that all stakeholders understand that in hard markets Lancashire will want to retain and even raise capital to take full advantage of underwriting opportunities.

Page 26
KPIs

Page 39
Enterprise Risk Management

Disciplined *to achieve success*

Being a disciplined and focused team, with clear strategic goals, means we deliver solid performance in all types of conditions.

PERFORMANCE

Elaine Whelan
Group Chief Financial Officer

MAINTAINING STRONG FINANCIALS

Q | *How would you sum up the 2015 Group financial performance?*

While market conditions continued to deteriorate, we maintained our disciplined approach to underwriting. A combination of our risk selection and managing our exposure in a softening market meant we were still able to produce a good result across all platforms. Our RoE for the year was 13.5 per cent, after adjusting for the impact of warrants, and our combined ratio was 72.1 per cent. Lancashire contributed 9.3 per cent of that RoE, with Cathedral and Kinesis contributing 3.4 per cent and 0.8 per cent respectively. We produced a profit after tax of $181.1 million and comprehensive income of $169.8 million. Our warrant adjusted compound annual return since inception is now 18.8 per cent.

Q | *Why have your premiums reduced by such a significant amount?*

Early on in 2014 we expected the market to continue to soften. We therefore wrote some multi-year deals as a hedge against that. Those deals were predominantly in the property catastrophe excess of loss, worldwide offshore energy and Gulf of Mexico offshore energy lines of business. The total multi-year premium in those segments in 2014 was $175.3 million. Adjusting for that, the reduction in premium was $91.2 million, or 12.5 per cent, which is more indicative of the pricing trend.

Q | *How else has the softening market impacted performance?*

Although pricing has reduced on the inwards book, the same is true on the outwards book. We have been able to increase our reinsurance cover in 2015 without increasing the cost. That has allowed us to protect our core book while managing our exposures down, which we believe is the right thing to do in this market.

As ever in a softening market, we see more losses coming through. Thankfully, given our business model, we have avoided most of these. There were no major catastrophe losses this year, but we did have a slightly higher level of mid-sized claims, particularly in the energy and satellite lines of business. However, reserve releases on prior years, particularly for 2014, were substantial as there was a general lack of reported claims coming through. Our accident year loss ratio was 46.0 per cent and our loss ratio was 27.5 per cent.

Q | *How did the investment market volatility affect Lancashire?*

There certainly was a lot of volatility throughout most of the year. Speculation about the timing of the Federal Reserve raising interest rates and concerns around China and global growth pervaded. But we have been hedging our portfolio against rate hikes for some time now and also have a small allocation to risk assets which helps to hedge the portfolio. Our investment return of 0.7 per cent for the year reflects that, and is a very respectable return in relative terms.

2015 FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

	2011 $m	2012 $m	2013 $m	2014 $m	**2015** **$m**
Gross premiums written	632.3	724.3	679.7	907.6	**641.1**
Net premiums written	565.1	576.1	557.6	742.8	**481.7**
Net premiums earned	574.5	582.6	568.1	715.6	**567.1**
Net insurance losses	182.3	174.1	188.1	226.5	**155.7**
Net underwriting income	208.8	289.1	254.2	335.7	**265.2**
Net investment income	43.2	32.5	25.4	28.6	**29.8**
Net realised gains (losses) and impairments	8.6	11.8	12.6	(5.9)	**(2.8)**
Net operating profit	219.0	220.3	184.2	231.9	**173.4**
Profit after tax	212.2	234.9	222.5	229.3	**181.1**
Net change in unrealised gains/losses on investments	(10.6)	17.8	(32.5)	(2.1)	**(11.3)**
Comprehensive income	201.6	252.7	190.0	227.2	**169.8**
Dividends[1]	180.4	201.4	325.6	321.0	**317.5**
Diluted earnings per share	$1.20	$1.29	$1.17	$1.16	**$0.91**
Diluted operating earnings per share	$1.23	$1.21	$0.97	$1.17	**$0.87**
Fully converted book value per share	$7.62	$7.83	$7.50	$6.96	**$6.07**
Return on equity	13.4%	16.7%	18.9%	13.9%	**10.9%**
Return on equity excluding warrant adjustments	13.4%	17.1%	18.9%	14.7%	**13.5%**
Net loss ratio	31.7%	29.9%	33.1%	31.7%	**27.5%**
Net acquisition cost ratio	19.6%	20.5%	22.1%	21.4%	**25.8%**
Expense ratio	12.4%	13.5%	15.0%	15.6%	**18.8%**
Combined ratio	63.7%	63.9%	70.2%	68.7%	**72.1%**
Accident year loss ratio	59.3%	34.6%	36.1%	35.9%	**46.0%**
Net total return on investments[2]	1.8%	3.1%	0.3%	1.0%	**0.7%**

(1) Dividends are included in the financial statement year in which they were recorded.

(2) Net return on investments includes internal foreign exchange hedges.

Q | *What is the impact on RoE of warrants exercised in 2015?*

We had 18.7 million warrants outstanding at the beginning of the year, all expiring on 16 December 2015. As expected, these were all exercised during 2015, mostly on a cashless basis. The impact of the cashless elections reduced our headline RoE by 2.6 per cent. Going forward, our only dilutive instruments will be our RSS awards and the impact of exercises will be insignificant.

Q | *How has capital been managed in 2015?*

Much the same way as it always has been – we work out what business we want to write, then we work out the capital we need to support that. We add a buffer and any excess beyond that buffer is returned to shareholders. We constantly monitor our capital and exposures and adjust our position as necessary. We still currently favour special dividends as a means of return given our multiple. We returned a total of $317.5 million this year, or 187.0 per cent of comprehensive income. That's a dividend yield of 17.3 per cent. Including dividends declared on 17 February 2016, our capital return since inception stands at $2.5 billion.

Elaine Whelan
Group Chief Financial Officer

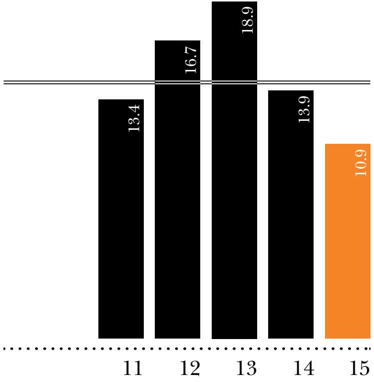
KEY PERFORMANCE INDICATORS

5 Year Average

RETURN ON EQUITY*

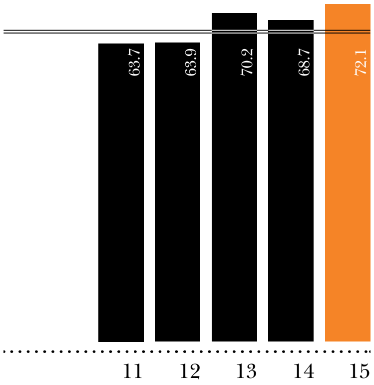
10.9%

DR



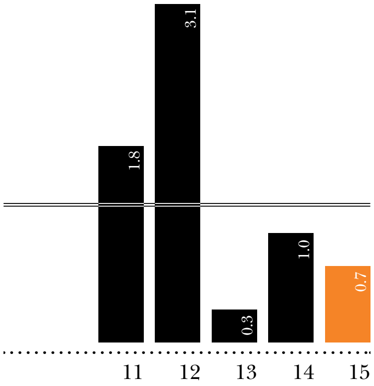
COMBINED RATIO

72.1%



TOTAL INVESTMENT RETURN

0.7%



Aim	The Group's aim is to provide shareholders with a risk-adjusted return on equity of 13 per cent in excess of a risk-free rate over the insurance cycle.	The Group aims to price its business to ensure that the combined ratio in any year is less than 100 per cent.	The Group's primary investment objectives are to preserve capital and provide adequate liquidity to support the Group's payment of claims and other obligations. Within this framework we aim for a degree of investment portfolio growth.
Measurement	The return on equity is measured by management as the internal rate of return of the increase in fully converted book value per share in the period, adjusted for dividends.	The combined ratio is the ratio of costs to net earned premium and is a measure of an insurance company's operating performance. It is calculated as the sum of the loss ratio, the acquisition cost ratio and the expense ratio.	Total investment return measures investment income and net realised and unrealised gains and losses produced by the Group's managed investment portfolio.
2015 Performance	Our market in 2015 was almost universally in a soft phase. We recognise that whilst we have attained very high RoE in the recent past, at this stage of the cycle we cannot expect to earn such high returns. But we continue to focus on getting the best risk-adjusted return for our shareholders. In 2015 this led us to buy more reinsurance and retrocession protection to reduce our exposures. Warrant exercises reduced our RoE by 2.6 per cent during 2015.	Whilst the combined ratio in 2015 was above the five-year average, it was still an excellent result. In the context of a softening market and corresponding downward pressure on premiums, we would expect the loss ratio to increase and have increased our attritional loss ratio to take account of both this and Cathedral's more frequency-oriented portfolio.	In 2015 Lancashire continued to monitor risk-on/risk-off volatility and increased the allocation to risk assets in the surplus portfolio as a hedge against the interest rate risk inherent in the significant fixed-income portfolio. However, given the liquidity and duration needs of the business, the composition of the core portfolio is unchanged.
Risk Management	The stated aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. We seek to align our variable remuneration to shareholders' interests by having an RoE component in this.	The Group's underwriters assess likely losses, using tools such as BLAST and BAM, and catastrophe models, and their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses. Peer reviews of risks are conducted through the daily underwriting call or peer review, depending on risk impact, enabling the Group to ensure careful risk selection, limits on concentration and appropriate portfolio diversification. The RRC then monitors performance at a portfolio level.	The investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a reasonably stable income stream. These objectives are reflected in the Group's investment guidelines and its conservative asset allocation. Management reviews the composition, duration and asset allocation of the investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions.

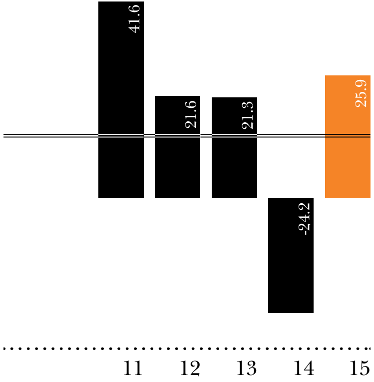
---

* RoE excluding the impact of warrants in 2015 was 13.5% (2014: 14.7%)

TOTAL SHAREHOLDER RETURN

25.9%

$ DR



The Group’s aim is to provide an attractive risk-adjusted return to shareholders over the insurance cycle. This is a long-term goal, recognising that the cyclicality and volatility of both the insurance market and the financial markets in general will impact management’s ability to maximise the share multiple in the immediate term.

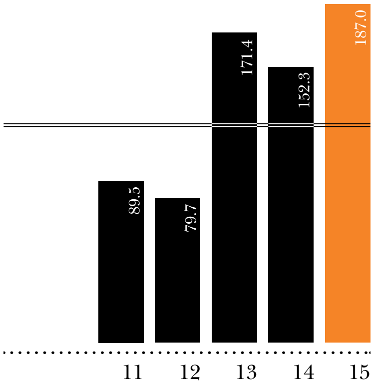
Total shareholder return is measured in terms of the internal rate of return of the increase/decrease in share price in the period, measured in U.S. dollars and adjusted for dividends.

Despite the challenging market in 2015 our share price performed extremely well.

The Lancashire remuneration structure and share scheme ensure that staff are highly motivated and closely aligned to the Group’s goals, and therefore with shareholders. Permanent staff are eligible to receive RSS awards for which TSR is an element of the vesting criteria. The participation of employees in the RSS ensures that there is a strong focus on sustainable long-term shareholder value.

PERCENTAGE OF COMPREHENSIVE INCOME RETURNED TO SHAREHOLDERS

187.0%



The Group aims to carry the right level of capital to match attractive underwriting opportunities, utilising an optimal mix of capital tools. Over time, through pro-active and flexible capital management across the cycle, we aim to generate optimum returns for shareholders.

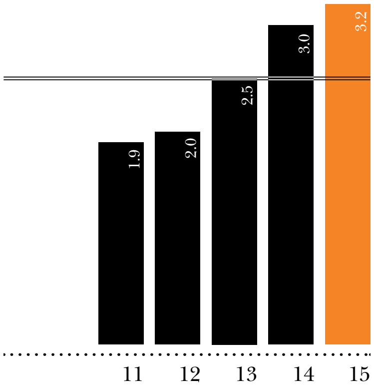
The percentage of comprehensive income returned to shareholders equals the total capital returned to shareholders through dividends and share repurchases paid in a given year, divided by the Group’s comprehensive income.

In view of the current market outlook Lancashire took the decision to return surplus capital to shareholders due to the lack of opportunities meeting internal hurdles. With significant and long-term market capital to support our reinsurance needs, we were able to improve the Group's capital efficiency through better pricing and terms on our outwards reinsurance purchases.

Risk tolerances are set at a level that aims to prevent the Group incurring losses that would impair its ability to operate. The Group’s key capital measure is its A.M. Best rating, and a minimum rating of A- is considered necessary to attract business. In 2015, Lancashire maintained its A rating.

DONATIONS MADE TO THE LANCASHIRE FOUNDATION

$3.2m



The Lancashire Foundation was established in 2007 with the aim of creating a charitable trust for the benefit of charitable causes in Bermuda, the UK and worldwide.

Money is donated by the Group to the Lancashire Foundation ordinarily through an annual cash donation and by dividends on Lancashire warrants that were donated to the Foundation on its inception. During 2015 a third-party donation of $2.5 million was also facilitated (see page 91 for further details).

Charities supported in 2015 included charities proposed by staff and by clients and brokers. Over 40 charities in total were supported financially in Bermuda, the UK and around the world. All staff had the opportunity to take part in volunteering days.

The Lancashire Foundation is a charity registered in England and Wales (registration number 1149184). The charity’s trustees are Group employees and non-executive Board members. The day-to-day operations are administered by a Foundation Donations Committee, made up of employees from across the Group, which operates within the specific criteria set for the Foundation’s charitable giving.

5 Year Average

$ DR

KPI linked to Executive Directors’ remuneration. For more information see pages 71 to 88.

Paul Gregory
Group Chief Underwriting Officer

KNOWING OUR MARKETS, DELIVERING CONSISTENT RESULTS

2015 witnessed volatility across the globe with plunging oil prices, uncertainty around China and further political instability following a rise in war and terrorism related events. (Re)insurance is a global industry and these shifts in economic and political factors have ramifications in the classes of business the Group underwrites, with some classes more directly affected than others. This, combined with the challenging and softening market conditions, creates a landscape that requires careful navigation. The Lancashire Group has the underwriting teams, with the appropriate client and broker relationships, to do just this.

PROPERTY REINSURANCE

Mother Nature was kind to the reinsurance industry during 2015. There were a number of natural catastrophe events including large earthquakes in Nepal, Pakistan, India and Afghanistan, plus the most intense storm ever recorded in the Western hemisphere, Hurricane Patricia, in Mexico. Whilst all of these events sadly led to loss of life, the economic impact to the industry was minimal. Following this low level of natural catastrophe losses to the industry the softening rating trend continued through 2015. Loss levels were at historic lows, so the rates in all global territories were under pressure, albeit the pace of reductions slowed, most noticeably for US catastrophe perils. The dynamic between traditional markets and alternative ILS capacity providers remained, but traditional paper still remains favoured by the majority of clients with whom the Group enjoys relationships. Across the Group we have strong client and broker relationships that have been built up over time, and with the benefit of both Lloyd's and Bermudian platforms we are able to offer different products to satisfy the varying needs of both clients and brokers. It is this that has allowed us to maintain our profitable core portfolio.

PROPERTY DIRECT & FACULTATIVE

The property portfolio is less directly impacted by global events than other classes, albeit economic factors naturally have some impact on demand. It is the demand and supply dynamics of the insurance industry that have a more acute effect on this sector, although our portfolio is structured in such a way as to help protect us. Our portfolio of business underwritten in Syndicate 2010 is made up of two parts: binding authorities and open market risks. Each part has experienced contrasting fortunes. In a market where most lines of business are under pressure, the binding authority portfolio has held up extremely well. Loss activity has been low and rates were relatively flat through the first half of the year with small reductions during the latter half. The open market risks have been under more pressure as a number of aggressive competitors competed for market share and premium income. In line with the Group's underwriting philosophy, risk selection is paramount and underwriting with profitability in mind has been the focus in order to navigate this competitive market landscape. An abundance of facultative and treaty reinsurance capacity allows the underwriting team to trade through this softer part of the cycle and protect underwriting margins.

ENERGY

Without doubt 2015 was ‘the perfect storm’ for the upstream energy market. The steep decline in the price of oil directly impacted demand for insurance coverage at a time when energy market insurance capacity had never been higher. It was this supply-demand imbalance that drove a fiercely competitive market, with market premiums reducing significantly given lower rates and lower client demand. Overlying these market conditions were a run of attritional losses, which in quantum ultimately outstripped premium in the market. Despite this, the Group portfolio held up well. Premium income was undoubtedly impacted, but most importantly we maintained our positions on our core portfolio and the book remained profitable. Having the discipline not to chase premium to protect top line income was ultimately why our portfolio outperformed the market. Under the circumstances this was a considerable achievement and, whilst the challenges will continue into 2016, the portfolio remains well placed to outperform the market.

MARINE

The volatile commodity market, driven by uncertainty around China, has had a direct impact on the marine cargo portfolio underwritten in Syndicate 3010 as commodity prices have a knock on effect on demand. Despite this, the core portfolio has performed well, with the book performing in line with expectations, albeit with premiums down given it is a commodity based business. Much like the energy book, the focus has been on underwriting for profit, not top line premium growth, with underwriting discipline being maintained. Outside of the cargo market, the other marine classes we underwrite have been relatively stable throughout 2015. The hull, builders' risk and war accounts at Lancashire have been remarkably stable from both a pricing and demand point of view, with an absence of any significant market losses. The Group’s marine portfolio is mature and well established and will most likely remain that way for the foreseeable future.

AVIATION

Following a turbulent 2014 loss year, the claims in the aviation market continued in 2015. Political instability continued to bring claims with the tragic loss of the Russian Metrojet plane over Egypt, as well as the Germanwings crash as a result of pilot suicide. The Group straddles many parts of the aviation market with aviation reinsurance written in Syndicate 2010, war and general aviation within Syndicate 3010 and the AV52 and satellite products within Lancashire London. In the aviation reinsurance market the larger losses in 2014 seem to be long forgotten and those in 2015 have had little impact on the market as a whole. Market conditions weakened as abundant capacity remained in the sector, fuelling competition. In these environments risk selection remains key and we have carefully navigated the market with our core clients. We continue to build out the war and general aviation offering from Syndicate 3010 carefully and selectively in a challenging marketplace. The support from brokers and clients in the first full year of underwriting has been appreciated as we build the foundations of the portfolio for future years. The AV52 portfolio remains stable and once again performed profitably, despite pressure on rating, given the extremely low claims frequency for this class. The satellite market has continued to experience a number of losses throughout the year, however there has been limited reaction in risk rating. As a result, we have shrunk our position in this sub-class as the risk reward metrics no longer make larger positions on satellite business viable. We remain willing and able to increase risk levels in the future, should the risk reward dynamic change.

TERRORISM, POLITICAL VIOLENCE AND POLITICAL RISKS

There has been a high frequency of political violence and terrorism events throughout the course of 2015 across all parts of the globe, from terrorist attacks in Nigeria, Tunisia, Turkey and France to airstrikes in Libya, Syria and Yemen. Despite the volatile world in which we live, and the prevalence of tragic war and terrorism events, there remains pricing pressure in all of these classes as, despite the terrible loss of life these events bring, the financial cost borne by insurers is thus far small. The escalation of incidents does however raise awareness of the product, which stimulates new demand, and given the pricing levels today the product is more affordable and attractive to purchase. The Group has been successful in building a core book of business and defending that book during 2015 as well as slowly building out the portfolio within Syndicate 3010 and at the same time avoiding losses and maintaining profitability. The increase in broker facilities has been a feature of 2015 which puts further pressure on an already competitive market. To date we have not entered any facility where we are not in control of our underwriting, as we believe we must have complete control of our risk selection and exposure management which, in an ever more unstable world, is more important than ever. Fortunately, given our history, line size, service levels and leadership capabilities, we have been able to maintain our market position despite the increased competition.

Hayley Johnston
Chief Underwriting Officer, LUK

Sylvain Perrier
Chief Underwriting Officer, LICL

In a difficult year for underwriting, Lancashire still achieved a combined ratio of 72.1 per cent.

STRONG PERFORMANCE

BUSINESS ENVIRONMENT AND OUTLOOK

2015 has been a difficult year for underwriting as we are now firmly in the soft phase of the underwriting cycle. But managing the cycle is one of the key skills of the Lancashire Group. As a long-standing leader in specialty insurance and reinsurance lines, the silver lining of the highly competitive market is the ability of the Group to maintain its core inwards portfolio while managing net exposures through greatly improved pricing, and terms and conditions on the outward reinsurance placements.

The market is not without challenges, but the Lancashire business model was designed with the knowledge that we have to cater for all phases of the cycle. A solid return on equity and an excellent combined ratio have been achieved in difficult trading conditions and allowed us to maintain our excellent dividend record, based on our continued commitment to focusing first on our underwriting and our capital management. With market-leading underwriters across all three of our business platforms we have defended our core portfolio, reduced exposures where competition made returns unacceptable, and maintained our relevance to brokers and clients. The work we have done over the last couple of years in adding to our underwriting resources reinforces our ability to trade successfully through all conditions.

RENEWAL PRICE INDEX (RPI)

Lancashire's RPI is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits on like-for-like renewals only, and is weighted by premium volume. The RPI does not include new business and only covers business written by LICL and LUK, to offer a consistent basis for analysis. The calculation involves a degree of judgement in relation to the comparability of contracts and the assessment noted above. To enhance the RPI tool, the 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 the RPI 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 table summarises the RPI figures for the main business classes, excluding the Lloyd's segment, using 2006 as the base year:

RPI

Class	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**
Aviation (AV52)	100	80	69	68	62	59	55	49	44	**41**
Gulf of Mexico offshore energy	100	80	64	137	139	140	140	136	125	**118**
Worldwide offshore energy	100	80	68	84	88	97	100	97	91	**81**
Marine	100	88	80	82	80	79	86	89	91	**82**
Property retrocession and reinsurance	100	97	86	127	121	131	157	152	132	**117**
Terrorism	100	86	71	66	60	57	55	52	48	**43**
Combined	100	86	76	83	81	83	84	81	76	**68**

UNDERWRITING RESULTS

	2014						**2015**					
	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m	**Property $m**	**Energy $m**	**Marine $m**	**Aviation $m**	**Lloyd's $m**	**Total $m**
Gross premiums written	263.0	239.4	67.7	53.2	284.3	907.6	**197.2**	**112.0**	**47.6**	**36.6**	**247.7**	**641.1**
Net premiums earned	221.5	169.7	57.7	52.6	214.1	715.6	**171.3**	**126.5**	**37.7**	**33.4**	**198.2**	**567.1**
Net loss ratio	9.8%	24.7%	47.8%	62.5%	47.9%	31.7%	**10.6%**	**37.0%**	**13.8%**	**57.8%**	**33.4%**	**27.5%**
Net acquisition cost ratio	11.8%	30.9%	30.7%	18.3%	22.2%	21.4%	**18.4%**	**37.4%**	**34.2%**	**26.3%**	**23.0%**	**25.8%**
Expense ratio	–	–	–	–	–	15.6%	**–**	**–**	**–**	**–**	**–**	**18.8%**
Combined ratio	21.6%	55.6%	78.5%	80.8%	70.1%	68.7%	**29.0%**	**74.4%**	**48.0%**	**84.1%**	**56.4%**	**72.1%**

PREMIUMS

Gross premiums written decreased by 29.4 per cent in 2015 compared to 2014. The decrease came primarily from the property and energy segments where a number of multi-year deals written in 2014 are not yet due to renew. Of the total reduction of $266.5 million in gross premiums written for 2015, non-annual deals in those segments accounted for $175.3 million. Excluding the impact of these deals, the reduction for 2015 in gross premiums written was $91.2 million or 12.5 per cent. Gross premiums earned for the year decreased by 17.2 per cent. The Group's five principal segments, and the key market factors impacting them, are discussed below.

PROPERTY

Property gross premiums written decreased by 25.0 per cent for the year ended 31 December 2015 compared to the year ended 31 December 2014. The property retrocession and catastrophe excess of loss, terrorism and political books, all saw reductions due to the timing of multi-year contract renewals.

ENERGY

Energy gross premiums written decreased by 53.2 per cent for the year ended 31 December 2015 compared to the year ended 31 December 2014. Multi-year contracts in the Gulf of Mexico and worldwide offshore books drove the majority of the year on year reduction with $65.0 million and $18.6 million respectively of multi-year deals written in 2014 not yet due for renewal. The remaining reduction was primarily due to pricing pressure and exposure reductions given the drop in oil prices. The reduction in gross premiums earned in 2015 in the energy book of 26.0 per cent is significantly lower than the reduction in gross premiums written, reflecting the impact of continued earnings on the prior year multi-year deals. While 2015 gross premiums written have decreased by 53.2 per cent, 37.2 per cent is due to the impact of multi-year deals.

MARINE

Marine gross premiums written decreased by 29.7 per cent for the year ended 31 December 2015 compared to the year ended 31 December 2014. The decrease is primarily driven by non-annual contracts written in 2014 in the marine hull book which are not due to renew until 2016. Overcapacity in the market continued to put downward pressure on pricing, especially the hull book.

AVIATION

Aviation gross premiums written decreased by 31.2 per cent for the year ended 31 December 2015 compared to the year ended 31 December 2014 due to the timing of satellite launches on contracts written in previous years.

LLOYD'S

In the Lloyd's segment gross premiums written decreased by 12.9 per cent for the year ended 31 December 2015 compared to the year ended 31 December 2014. The decrease for the year was mainly due to pricing pressure across all historic lines of business, slightly offset by growth in the terrorism and aviation classes that Cathedral began writing in 2014.

CEDED

Ceded premiums decreased by $5.4 million, or 3.3 per cent, for the year ended 31 December 2015 compared to the year ended 31 December 2014. The overall decrease for the year is predominantly due to the restructuring of the Lancashire marine, energy and terrorism programmes during the first quarter of 2015 at a reduced cost. The saving from the restructuring was offset by new cover purchased on the political risk book in the second quarter of 2015. Lancashire and Cathedral both took advantage of favourable conditions in the reinsurance market to buy more limit at a lower attachment point for around the same outlay, with the overall net decrease in outwards reinsurance spend in the year being due to a multi-year programme placed in 2014 but not yet due for renewal.

EARNED

Net premiums earned as a proportion of net premiums written were 117.7 per cent for the year ended 31 December 2015, compared to 96.3 per cent for the year ended 31 December 2014. The increased percentage in premiums earned for the year ended 31 December 2015 compared to the same period in 2014 was due to the impact of multi-year deals written in 2014 where we saw the benefit of earnings coming through on those deals in 2015.

LOSSES

The Group's net loss ratio was 27.5 per cent for the year ended 31 December 2015 compared to 31.7 per cent for the year ended 31 December 2014. The 2015 accident year loss ratio, including the impact of foreign exchange revaluations, was 46.0 per cent compared to 35.9 per cent for the year ended 31 December 2014. For the year ended 31 December 2015, there were no significant losses, however, we experienced a few mid-sized claims across a number of our segments. Attritional losses have otherwise been relatively low. In 2014 there were relatively low reported losses across all lines, although there was some negative development on prior accident year mid-sized marine and energy claims.

Prior year favourable development was $107.7 million for the year ended 31 December 2015, which was primarily driven by general IBNR releases across most lines of business plus additional recoveries on our 2011 Thai flood losses. This compared to favourable development of $34.4 million for the year ended 31 December 2014 where favourable development from IBNR releases was offset somewhat by adverse development on prior year accident mid-sized marine and energy claims.

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

LOSS DEVELOPMENT BY CLASS

	2011 $m	2012 $m	2013 $m	2014 $m	**2015 $m**
Property	63.5	(36.0)	13.2	19.8	**26.4**
Energy	57.3	37.4	18.4	5.4	**35.2**
Marine	28.6	25.9	(23.4)	(9.7)	**13.8**
Aviation	5.9	0.1	(1.4)	0.9	**2.9**
Lloyd's	n/a	n/a	9.1	18.0	**29.4**
Total	155.3	27.4	15.9	34.4	**107.7**

Note: Positive numbers denote favourable development.

ACCIDENT YEAR LOSS RATIOS

	2011 %	2012 %	2013 %	2014 %	**2015 %**
Accident year loss ratio	56.7	30.0	27.5	29.7	**46.0**
Initial accident year loss ratio	59.3	34.6	36.1	35.9	**n/a**
Change in loss ratio post-accident year	2.6	4.6	8.6	6.2	**n/a**

Note: Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2015.

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

ULTIMATE LOSS DEVELOPMENT BY ACCIDENT YEAR

	2014 $m	**2015 $m**
2006 and prior accident years	1.8	**1.6**
2007 accident year	(0.3)	**1.1**
2008 accident year	3.6	**(2.1)**
2009 accident year	4.3	**4.1**
2010 accident year	5.7	**(3.5)**
2011 accident year	(6.1)	**17.1**
2012 accident year	11.1	**10.8**
2013 accident year	14.3	**35.4**
2014 accident year	n/a	**43.2**
Total	34.4	**107.7**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 35.2 per cent as at 31 December 2015 compared to 31.6 per cent as at 31 December 2014.

ACQUISITION COSTS

The acquisition cost ratio was 25.8 per cent for the year ended 31 December 2015 compared to 21.4 per cent for the year ended 31 December 2014. The increase was largely due to profit commission received in relation to Accordion that lowered the ratio in 2014, combined with lower earned premiums in 2015 and additional reinsurance cover purchased during 2015 compared to 2014.

INVESTMENTS, LIQUIDITY AND CASH FLOW

Since inception, the primary objectives for our investment portfolio have been capital preservation and liquidity. Those objectives remain unchanged, and are more important than ever in today's volatile and reactive markets. As market volatility continues, we position our portfolio to limit downside risk in the event of market shocks. In 2015, our focus has been on managing our interest rate risk, the largest risk to our predominantly fixed income portfolio. We continue to maintain a short duration fixed income portfolio and have been using our risk budget to add products to our portfolio to help mitigate a rise in rates. We produced a total investment return of 0.7 per cent (2014 – 1.0 per cent) for the year. Our average annual total investment return since inception is 3.0 per cent, and we have made a positive investment return in every year since inception, including 2008. Our portfolio mix illustrates our conservative philosophy, as shown in the table on page 124. With the composition regulated by the Group's investment guidelines, we have three investment portfolio categories: 'core', 'core plus' and 'surplus'. The core portfolio contains at least enough funds required to meet near-term obligations and cash flow needs following an extreme event. Assets in excess of those required to be held in the core portfolio may be held in any of the three portfolio categories, which are discussed further on page 123. As at 31 December 2015 and 2014 the managed portfolio was as follows:

	2014 %	**2015 %**
Fixed income securities	81.9	**81.6**
Cash and cash equivalents	10.6	**9.6**
Hedge funds	6.8	**8.0**
Equity securities	0.7	**0.8**
Total	100.0	**100.0**

MANAGED INVESTMENT PORTFOLIO ALLOCATIONS

	2011 %	2012 %	2013 %	2014 %	**2015 %**
Cash	13.2	11.1	14.7	10.6	**9.6**
Short-term investments	4.0	5.4	9.8	1.4	**1.1**
Fixed income funds	–	–	1.1	0.7	**0.6**
Government debt	27.2	18.8	14.6	21.4	**23.6**
Agency debt	4.2	6.2	4.1	0.8	**0.2**
Agency MBS, CMBS	13.2	19.2	10.9	7.7	**7.3**
Non-agency RMBS, ABS, CMBS	5.8	5.3	8.4	11.0	**8.4**
FDIC corporate bonds	2.5	–	–	–	**–**
Corporate bonds	29.9	32.2	29.7	31.7	**33.2**
Bank loans	–	1.8	4.5	5.8	**5.9**
Fixed income – at FVTPL	–	–	1.3	1.4	**1.3**
Equity securities	–	–	0.7	0.7	**0.8**
Hedge funds – at FVTPL	–	–	–	6.8	**8.0**
Other investments	–	–	0.2	–	**–**
Total	100.0	100.0	100.0	100.0	**100.0**

The composition, duration and asset allocation of the investment portfolio are reviewed on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risk in the portfolio. We try to be nimble in our investment strategy while putting our objective of capital preservation first and foremost. We believe in the application of common sense, and do not place much reliance on 'black box' approaches to investment selection.

Investments are, however, inherently unpredictable and there are risks associated with any investment strategy decisions. Recent market history has been tumultuous and we remain ever watchful. We will continue to monitor the economic environment closely.

INVESTMENT PERFORMANCE

Net investment income excluding realised and unrealised gains and losses, was $29.8 million for the year ended 31 December 2015, an increase of 4.2 per cent compared to 2014. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $14.4 million for the year ended 31 December 2015 compared to $22.0 million for 2014. The investment portfolio returned 0.7 per cent in 2015, a good result given the increase in treasury yields and the widening of credit spreads during the year. For the year ended 31 December 2014, returns were generated primarily by a reduction in treasury yields, which offset the slight widening of investment grade credit spreads.

LIQUIDITY

The Group is a short-tail insurance and reinsurance group. As such, the investment portfolio must be liquid, short duration, and highly credit-worthy. As noted earlier, the Group's investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims in conjunction with providing a reasonably stable income stream.

Liquid securities will be maintained at an adequate level to more than meet expenses, including unanticipated claims payments. Only once safety, liquidity, and investment income requirements are satisfied, may additional growth in the investment portfolio be pursued. Given the current global outlook and incessant volatility in the markets, this is unlikely to occur in the near future.

CASH FLOW

The Group's cash inflows are primarily derived from net premiums received, from losses recovered from reinsurers, from net investment income, including dividends and other returns from associates, and any capital raising activities performed in a given year including the issuance of debt. Excess funds are invested in the investment portfolio, which primarily consists of high-quality, highly liquid fixed income securities of short duration. Other cash inflows result from the sale and redemption of investments.

The principal outflows for the Group are the settlement of claims, the payment of premiums for reinsurance cover, payment of general and administrative expenses, the servicing of debt, the purchase of investment products, the distribution of dividends and the repurchasing of shares.

In 2015, whilst lower than the prior year, our operating cash flow remained strong, driven by the Group's robust underwriting performance. A net positive cash inflow arose from operations during the year of $98.1 million (2014 – $212.5 million). We have generated positive operating cash flows in each year of operation since inception.

KEY INVESTMENT PORTFOLIO STATISTICS

	2011	2012	2013	2014	**2015**
Duration	1.8 years	1.8 years	1.0 year	1.5 years	1.5 years
Credit quality	AA–	AA–	AA–	AA–	AA–
Market yield	1.5%	1.1%	1.2%	1.5%	1.9%
Book yield	1.9%	1.8%	1.4%	1.5%	1.6%

ASSOCIATES

The $4.1 million share of profit of associate for the year ended 31 December 2015, reflects Lancashire's 10 per cent interest in KHL. The share of profit of associates was $5.9 million for the year ended 31 December 2014 and related to the Kinesis vehicle and the remaining interest in the Accordion and Saltire vehicles. Third-party capital is discussed on page 38.

OTHER OPERATING EXPENSES

	2014 $m	**2015 $m**
Employee salaries and benefits	55.3	**61.6**
Employment taxes on equity compensation	(1.2)	**2.7**
Other operating expenses	48.8	**42.3**
Amortisation of intangible assets	8.4	**–**
Total	111.3	**106.6**

Employee remuneration costs for the year ended 31 December 2015 were $6.3 million higher than the same period in 2014. With the recent announcement of the incumbent CEO and CFO of Cathedral leaving the Group, an additional compensation expense has been recorded. A slight increase in headcount and an increase in year end bonus and profit related pay provisions, due to underlying performance, also led to increased salaries and benefits for the year. The year ended 31 December 2014 included a reversal of national insurance accruals in relation to equity compensation exercises driven by both the timing of exercises and fluctuations in the share price.

Other operating expenses were lower for the year ended 31 December 2015 compared to the same period in 2014 primarily due to reduced donations by the Group to the Lancashire Foundation, as the Foundation had sufficient funds to meet its goals in the current year. In addition, some legal and consulting costs were incurred in 2014 in relation to the retirement of the previous CEO. The amortisation of intangible assets arising on the acquisition of Cathedral was completed in the third quarter of 2014 and there was no further amortisation in 2015.

Equity based compensation expenses were $15.8 million for the year ended 31 December 2015 and $23.3 million for the year ended 31 December 2014. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations.

CAPITAL MANAGEMENT

Lancashire has built a reputation for being one of the best known and most active proponents of capital management in the industry. Capital management is our most important area of focus after underwriting and it is our firm belief that pro-active and flexible capital management is crucial in helping to generate a superior risk-adjusted return over time. With our focus on maximising shareholder return we will return capital where this offers the best returns for our shareholders. We have returned 103.6 per cent of comprehensive income generated via dividends or share repurchases since inception.

The Group actively reviews the level and composition of capital on an ongoing basis. Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. The key aim of the capital management process is to maintain a strong balance sheet, whilst:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, regulatory and rating agency requirements.

The subsidiary operating entities also conduct capital requirement assessments under internal measures and in compliance with local regulatory and Lloyd's requirements.

Capital raising can include debt or equity, and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. All capital actions require approval by the Board of Directors. The retention of earnings generated also leads to an increase in capital.

The composition of capital is driven by management's appetite for leverage, amongst other factors, including the cost and availability of different types of capital.

Maintaining a strong balance sheet will be the overriding factor in all capital management decisions. Solvency II, a new regulatory regime for (re)insurance in the European Economic Area, introduced a new basis for assessing capital which was effective from 1 January 2016. The Group is confident that it is more than adequately capitalised for supervisory and regulatory purposes under the Solvency II regime.

CAPITAL

As at 31 December 2015, total capital available to the Group was $1.542 billion, comprising shareholders' equity of $1.220 billion and $322.3 million of long-term debt. Tangible capital was $1.388 billion. Leverage was 20.9 per cent on total capital and 23.2 per cent on total tangible capital. Total capital and total tangible capital as at 31 December 2014 were $1.683 billion and $1.530 billion respectively.

DIVIDENDS

During 2015, the Lancashire Board declared a final dividend of $0.10 and a special dividend of $0.50 per common share in respect of the 2014 financial year and an interim dividend of $0.05 and special dividend of $0.95 per common share in respect of 2015. With the final dividend in respect of 2015 of $0.10 per common share, total capital returns since inception amount to $2.5 billion, or 210.9 per cent of initial capital raised. The final dividend of $0.10 per common share has been declared and will be paid on 23 March 2016 to the shareholders of record on 26 February 2016.

NON PRE-EMPTIVE ISSUE OF SHARES

As part of the Group's flexible approach to capital management the Board has in recent years requested and received from shareholders authority to issue up to 15 per cent of its shares on a non pre-emptive basis. Lancashire believes that this ability to raise capital quickly is important in securing first mover advantage in the catastrophe insurance and reinsurance business which it underwrites. The Board proposes to put a similar request for authority to shareholders in a resolution at the 2016 AGM to be held on 4 May 2016.

WARRANTS

All outstanding warrants to purchase the Company's common shares which were issued at inception were exercised prior to their expiry on 16 December 2015. Warrants exercised during the year are shown below.

LETTERS OF CREDIT

Lancashire has a standard syndicated LOC facility which in total amounts to $350.0 million, with a $75.0 million loan sub-limit available for general corporate purposes. Syndicate 2010 and Syndicate 3010 each have a catastrophe facility in place to assist in paying claims and gross funding of catastrophes. These facilities amount to a combined $100.0 million with a total of $50.0 million available by way of LOCs and $50.0 million by way of RCFs.

There was no outstanding debt under the above facilities at any reporting date. There are no off-balance sheet forms of capital.

WARRANTS

	Number of Management Team Performance warrants	Number of Management Team Ordinary warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of Ordinary warrants	Total Number of warrants
Outstanding and exercisable as at 31 December 2014	117,480	559,182	15,032,679	648,143	2,350,000	18,707,484
Exercised during the year	(117,480)	(559,182)	(15,032,679)	(648,143)	(2,350,000)	(18,707,484)
Outstanding and exercisable as at 31 December 2015	**–**	**–**	**–**	**–**	**–**	**–**

Lawrence Holder
Managing Director, CUL

Key financial information for Cathedral for the year ended 31 December is as follows:

	2014 $m	**2015 $m**
Gross premiums written	284.3	**247.7**
Net premiums written	219.4	**196.4**
Net premiums earned	214.1	**198.2**
Net insurance losses	102.5	**66.2**
Net underwriting income	64.1	**86.4**
Other income	10.1	**7.0**
Profit after tax	25.7	**46.0**
Comprehensive income	25.4	**45.6**
Net loss ratio	47.9%	**33.4%**
Net acquisition cost ratio	22.2%	**23.0%**
Expense ratio[1]	15.0%	**17.2%**
Combined ratio[1]	85.1%	**73.6%**

(1) The expense ratio in Cathedral's financial statements is presented net of fees, commissions and other non-investment income. On this basis the combined ratio for 2015 is 71.0 per cent compared to 81.5 per cent for 2014.

CATHEDRAL

2015 has seen a continuation of the deteriorating trading environment set against a benign claims experience that has prevailed since the start of 2013. The main distinction between this year and last has been a change in focal point in the market, where both trading pressure and losses have fallen. Competitive emphasis has moved from property reinsurance to the direct lines of business, as companies look to supplement income lost across their reinsurance portfolios. Despite the challenging market, during 2015 Cathedral has contributed to the Group's top and bottom line, with strong premium retention and excellent underwriting profits. We have been working hard to maintain our accounts in a shape where we believe we have a reasonable chance of a profitable outcome, assuming that we return to a more frequent and severe claims environment than we have had of late.

Syndicate 2010 has suffered a small loss of top line income but our net position has been mitigated by our ability to purchase cost effective reinsurance that has lowered our retentions while our overall exposures have remained stable.

The position of each of our underwriting teams within their markets has enabled them to deliver a good quality book of business in a challenging year. We continue to get presented with good business opportunities at the behest of clients and brokers, but naturally we trade within oversubscribed market places and have been forced to decline business, some of it very long standing where we believe market pricing no longer holds out sufficient prospect of a profit. Such disciplined underwriting involves hard choices, but is essential in the current market.

Although 2014 was all about competition in the property reinsurance account, in 2015 the biggest pressures have been in the open market direct insurance book and the aviation reinsurance book. Both have seen additional players shoehorning themselves into already oversubscribed markets, offering capacity at prices our underwriters do not feel offers much prospect of profit, much of the time within new rationalised coverage structures, where brokers and clients are looking to maximise the value they can get.

Syndicate 3010's core cargo account ebbs and flows with world trade and commodity pricing but, outside that, the rest of our accounts are all operating in very tough conditions. Both the direct aviation and aviation war markets are heavily oversubscribed and blighted by the presence of broker lineslips corralling significantly more capacity than is required. We have preferred to plough our own furrow, offering open market leading expertise with the support of some notable players in the Lloyd's market on whose behalf we underwrite. We now have an established presence and a good quality trading portfolio from which to build in the future.

Our terror and energy accounts have also had to contend with challenging market conditions created by over-capacity in general, and more specifically broker facilities in the terrorism market and for energy a reduction in demand from the industry on the back of falling oil prices. Despite these challenging conditions, the foundations set when we established the accounts in 2014, and the leverage the Group's position in these markets provides, has allowed these portfolios to develop in a measured way.

Darren Redhead
Chief Executive Officer, Kinesis

KINESIS AND THIRD-PARTY CAPITAL

Kinesis was launched in 2013 and is the vehicle for the development of Lancashire's strategy to build partnerships with capital market participants. It gives the Group the opportunity to leverage its underwriting expertise, whilst affording flexibility in the management and deployment of its own capital. During 2015, Kinesis deployed $299.5 million of limits of fully collateralised reinsurance protection through its unique, multi-class product offering for $62.9 million of net premiums written. Since inception to the end of 2015 Kinesis has deployed combined aggregate limits of $639.5 million for $140.7 million of net premiums written and offers investors both superior returns and a high level of diversification.

Lancashire's subsidiary KCML receives underwriting fees on all net premiums written by Kinesis Re, generating a stable stream of fee income, in addition to potential profit commissions. LHL also holds a 10.0 per cent stake in KHL, which is treated as an associate for accounting purposes. Lancashire's share of KHL's results is reflected as an equity pick up in the consolidated financial statements.

> *The Kinesis multi-class approach continues to find attractive opportunities and offers investors superior returns.*

Financial information for the year ended 31 December is as follows:

	Kinesis		Saltire		Accordion		Total	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Profit commission	**7.3**	–	**–**	3.0	**–**	6.7	**7.3**	9.7
Underwriting fees	**5.6**	6.2	**–**	–	**–**	–	**5.6**	6.2
Equity pick up	**4.1**	4.7	**–**	0.1	**–**	1.1	**4.1**	5.9

Note: LHL owned 92.68 per cent of KCML at 31 December 2015.

Louise Wells
Chief Risk Officer

ENTERPRISE RISK MANAGEMENT

The fundamental principle of the Group's approach to ERM is that risk management should be embedded in the processes and procedures that we use to run our business every day. This has not changed. However in 2015, we have had a busy, yet successful year embedding the Solvency II related processes and procedures developed in 2014 into our business as usual processes. We are confident that we continue to have a clear view of our risks, and their management, right across the Group.

ERM DEVELOPMENTS

With the introduction of Solvency II on 1 January 2016 we worked closely with the BMA (our former Group supervisor) to effect an orderly transition to the PRA, who became our Group supervisor on that date. During 2015, we successfully submitted our first supervisory reporting to the PRA under the Solvency II preparatory phase guidelines.

At the Group level, the ORSA Working Group, created in 2014, has been replaced by the RROC with the remit to "support the Board in reviewing Solvency II and other regulatory and public reporting outputs on the Board's behalf and, to the extent permitted by in force regulatory requirements, approving these for release". The RROC consists of at least two Non-Executive Directors from the LHL Board who will rotate every two years, the Group CEO, Group CFO and CRO. An equivalent committee also operates at the LUK level as LUK is also PRA regulated.

The RROC allows the Non-Executive Directors to carry out a more detailed review of the ORSA process and procedures and to contribute directly to the point-in-time report given to our regulators outside of the constraints of the Board's calendar.

In 2015, the Group:

- Completed its scheduled RRC reviews of the underlying ORSA framework elements and an internal audit of the capital modeling process.
- Further developed the documentation and formalisation of policies and procedures underpinning the broader system of governance in accordance with the relevant Solvency II preparatory phase guidance.
- Provided further training and development to both relevant boards and senior management in order to validate understanding and embed engagement in the ORSA process.
- Further developed the stress, scenario and reverse stress testing processes to include input from the Non-Executive Directors at the scenario selection stage. The process also now includes stress testing the SCR.
- Commenced the implementation of a new governance and risk portal to enhance the ERM process.
- Fully embedded our suite of capital and solvency measures, including Solvency II metrics, into business as usual monitoring through RRC review and quarterly CRO reporting.
- Submitted a Group ORSA point-in-time report to the PRA including an assessment of the appropriateness of the standard formula for Lancashire's risk profile and a comparison to BLAST.
- Ensured Cathedral maintained its 'Green' rating by Lloyd's in relation to the Lloyd's Solvency II regime. This has included submissions and procedural and process documentation for the internal model, submission of an ORSA and overall compliance with the Lloyd's risk framework.

ERM & ORSA

KEY ACTIVITIES

- Review of business strategy with challenge from Board

- Production of ORSA report
- CRO report to Board and Executive Management Committee

- Risk ID and assessment
- Quarterly risk and control affirmations

- Capital and liquidity management frameworks
- Review of BLAST policies, capital and solvency appetites
- Full/proxy capital assessments
- Rating agency capital assessments
- Stress and scenario testing

- Review of risk strategy and 'attitude to risk'
- Review of risk appetite and limits
- Review of Group risk tolerances

- Review of risk management policies
- Assessment of risk management framework maturity
- Integrated assurance assessment
- Emerging risk assessment

- Review and approval of business plan
- Stress and scenario testing (business plan)
- Assessment of management actions

Key Elements of ORSA

- ● Board sign-off and embedding
- ● Business Strategy
- ● Risks
- ● Capital and Solvency
- ● Stress and Scenario Testing

RRC

The RRC, under the Chairmanship of the Group CEO, is the key management tool for monitoring and challenging the assessment of risk on a continual basis. The RRC agenda is reviewed each year to ensure its activities remain appropriate and aligned with the business cycle.

BLAST

We continue to challenge the assumptions used in BLAST and make changes where appropriate.

EMERGING RISK

As ever in 2015, the Group strove to foresee potential areas of new risk, or developments in existing risks that could threaten the Group. We continue to monitor cyber risk carefully, both in our operating exposure, where through our lack of retail clients and limited holding of our own employees' personal data we present a low risk profile, and through our inwards insurance risk. Terrorism is an area of core business focus for Lancashire, and is well understood, but the continued increase in diversity of targets and modes of attack from terrorist groups means we maintain a watch on developing trends.

RISK UNIVERSE

We continue to classify risks in three broad classes:

- Intrinsic Risk: 'Risk that stems from the inherent randomness and uncertainty that exists in the universe in which we operate and that is therefore fundamental to how we manage our business'. This is the risk we accept as inherent in the core functions of our business; so we recognise that by insuring fortuitous events we can suffer losses, and by investing premiums and other assets we can see the value of those investments fall. We cannot avoid these risks so we focus on the correlated operational risks and seek to mitigate them. So, for example, we know that by insuring the risk of earthquake we are exposed to the risk that losses exceed our plan. We model our portfolio using stochastic modeling to review actual and planned exposures to ensure they remain within tolerances. The correlated risks are that we might fail to design or maintain effective tolerances and limits, and fail to maintain exposures within such limits; or that we fail to keep accurate and timely records of our exposures. We then devise systems and processes to mitigate these risks, such as PML reconciliations, and RDS sign-offs.
- Operational Risk: 'The potential for specific losses arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events'. Risks that are operational in causation can be split into two sub-categories in terms of how they crystallise:
  - Independent: risks that have the potential to crystallise independently from intrinsic risk. For example, losses arising through the imposition of fines as a result of a regulatory breach, so unrelated to our core functions.
  - Correlated: risks that relate to the failure to effectively operate the processes designed to manage intrinsic risk, and therefore have the potential to amplify its impact beyond that modeled. For example, increased reinsurer default losses arising through the use of non-approved counterparties.
- Other Risk: This is the more nebulous category of risks such as reputational risk or communication risk which cannot necessarily be mitigated by holding capital since they may not have direct balance sheet implications. These are included within the risk register and are assessed and mitigated through scenario and stress testing.

RISK UNIVERSE

Type	*Category*	*Description*
Core	Underwriting Investment	Intrinsic risks representing the potential to generate a return as well as a loss. In these areas, the Group promotes informed risk taking that considers the risk and return equation in all major decisions, with the intention of maximising risk-adjusted return on equity.
Intrinsic	Reserving (Re)Insurance counterparty Liquidity	Intrinsic risks to which we are inevitably exposed as a result of conducting our day-to-day business operations yet offer no direct potential for return. They are quantified insofar as practicable for the purposes of capital and risk management and avoided or minimised insofar as is economically justifiable.
Operational	Operational	These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. They have the potential to either magnify the adverse impacts of intrinsic risks or crystallise separately in their own right.
Other	Strategic Group Emerging	These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as is practicable.

PRINCIPAL RISKS

As described under our review of the Risk Universe, our classification of risks as Intrinsic Core and Intrinsic Non-Core, Operational and Other, helps us to focus on our management and mitigation of those risks. Within BLAST insurance risk accounts for over 80 per cent of the allocated risk capital, so this is clearly the principal area where we stringently apply controls and reviews. For example, we place a large number of controls around monitoring risk levels across the business. However, we understand that even risks that do not generate a capital charge under an economic capital model can pose serious threats to the execution of the business plan and strategy, and therefore need to be monitored and tested. For example, we spend a lot of time looking at the implications of emerging capital and the evolution of the market cycle.

INTRINSIC RISK: CORE

TYPE	MITIGATION
Underwriting: Losses in our classes are hard to predict as to the specifics of timing and quantum of occurrence. Additionally, we write lines of business that are subject to accumulations, including accumulations of individual risks in a single event such as several property catastrophe excess of loss programmes being affected by a windstorm or earthquake, and accumulations between business lines such as a 9/11 type event impacting both the terrorism and AV52 portfolios. Losses can also exceed expectations in terms of both frequency and severity. So, although we model losses, for example using the RMS and AIR stochastic models, we know that these projections can and will be wrong in many instances.	**Modeling:** We apply loads to, and stress test, stochastic models and develop alternative views of losses using exposure damage ratios. **RRC:** The RRC considers accumulations, clashes and parameterisation of losses and models. **Capital:** We set our internal capital requirements at a level that allows for buffers above accumulations of extreme events.
Investment: We need to hold sufficient assets in readiness to pay claims, but the markets and products in which we invest can suffer volatility and losses. As a short-tail insurer, we are able to hold the majority of assets in low duration securities such as fixed income bonds. However, this creates an additional source of risk in the current environment, where there is a considerable risk from changes to interest rates as quantitative easing programmes may begin to taper or be increased. We model our investment portfolios and use various stress scenarios to see what kinds of losses we could expect under a range of outcomes.	**Investment strategy:** Our strategy is that investment income is not expected to be a significant driver of our returns. Our primary focus remains on underwriting as the engine of profits. **IRRC:** The IRRC forms an integral part of our risk management framework, meeting at least quarterly and reporting to the RRC quarterly. **External advisers:** Lancashire's Board and management recognise that the Group's principal expertise lies in underwriting so we use the services of internationally recognised investment managers who are experts in their fields.

INTRINSIC RISK: NON-CORE

TYPE	MITIGATION
Reserving: Because we do not know the amount of losses we are going to incur at the outset of a contract, we have to make estimates of the reserves we need to hold to pay claims. If these reserves are inadequate and claims exceed them, this may have an impact on earnings, or indeed capital. We use regular independent external reviews of our reserves which look at the overall levels of expected losses, as well as individual large events, including benchmarking analyses.	**Short-tail business:** Lancashire's focus is on short-tail lines of business where losses are usually known within, or shortly after, the policy period with a reasonable degree of certainty. **Experience data:** We have access to a lot of data, both our own and from the industry as a whole, about losses and loss trends. Actuarial and statistical data is used to set estimates of future losses, and these are reviewed by underwriters, claims staff and actuaries to ensure that they reflect the actual experience of the business. **External review:** Insurers typically facilitate an independent, external review of their loss reserves. Lancashire retains the services of one of the leading industry experts, and our appetite is defined so as to set reserves within a range of reasonable estimates based on both internal and external review.

INTRINSIC RISK: NON-CORE CONTINUED

TYPE	MITIGATION
Reinsurance and intermediary counterparty: Almost all our risks are brought to us by brokers, who act as an intermediary between us and the client and handle the transaction of payments of claims and premiums on our behalf. This exposes us to the risk of mishandling by, or failure of, the broker concerned. In order to make our portfolio as efficient as possible, we buy reinsurance to protect against severity, frequency and accumulation of losses. Again, this exposes us to the risk that our counterparties may have the inability or unwillingness to pay us in the event of a loss.	Counterparty credit limits: We use counterparty limits, seek to deal with reputable reinsurers and use collateral agreements where appropriate. The operating entities of the Group that contract for reinsurance separately, maintain and report their own counterparty credit limits at the entity level. The RSC is responsible for approving counterparties and monitoring aggregate limits. We have terms of business agreements with all our counterparties that seek to limit our exposure. All reinsurers must conform to minimum rating standards or collateral arrangements where appropriate.
Liquidity: In order to satisfy claims payments we need to ensure that sufficient assets are held in a readily realisable form. This includes holding cash accounts for the expected level of attritional losses, as well as ensuring we can meet claims payment requirements in extreme events.	Portfolio management: The Group maintains liquidity significantly in excess of the Board agreed tolerances. This is achieved through the maintenance of a highly liquid portfolio of short duration and high creditworthiness. We monitor this through the use of stress tests and mitigate risks through the quality of the investments themselves.

OPERATIONAL

TYPE	MITIGATION
These are risks arising as a result of inadequate or failed internal processes, personnel, systems or (non-insurance) external events. They have the potential either to magnify the adverse impacts of intrinsic risks or crystallise separately in their own right. This can encompass IT availability, where the failure of an IT system, such as our underwriting system, could impact our ability to maintain accurate and up-to-date records of our exposure. If correlated with an insurance loss this could cause us to breach insurance risk tolerances. It could also encompass IT integrity, where an unauthorised intruder could alter data in our systems, or introduce a bug that would corrupt the system.	Capacity: We mitigate IT availability risk by adding redundancy to the capacity we need and using backups of data including off-site storage that we test regularly. Testing and access: We mitigate the integrity risk by using independent external penetration tests, and by restricting access to key systems to only those people who are qualified and need to use them. Personnel: We mitigate the risks associated with staff retention and key-man risk through a combination of resource planning processes and controls. Examples include targeted retention packages, documented position descriptions and employment contracts, resource monitoring and the provision of appropriate compensation and training schemes.

OTHER

TYPE	MITIGATION
These are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as practicable. They include categories such as Strategic, Group and Emerging Risks.	Qualitative approach: These risks require a qualitative approach, engaging staff in appropriate discussions about sources of risk, and then thinking about possible outcomes. The Group Executive Committee and the RRC consider these issues, and the reports made by the CRO to the Board include standing items on Emerging Risk. Revision of Attritional Loss Ratio: Lancashire has responded to the downturn in the market cycle by revising the expected attritional loss ratios to account for the changes to pricing and coverage.

SUPPORTING COMMUNITIES – OUR RESPONSIBILITY TO OTHERS

WHY CORPORATE RESPONSIBILITY IS IMPORTANT TO LANCASHIRE

Lancashire strives to be a responsible employer and a good corporate citizen supportive of the communities in which we operate. We recognise the need to balance the responsibilities we owe to our stakeholders such as shareholders, regulators, staff and clients with our responsibilities to society as a whole. The insurance business by its nature seeks to provide support to those afflicted by the unexpected, but we recognise that many communities and businesses around the world cannot afford, or do not have access to, the right kind of insurance. So we use our talents and resources, our people, time and money to support those who are in distress or at a disadvantage. We do this principally through our Foundation, which supports a number of excellent charities, both through grant making and encouraging volunteering by our staff, to whom we provide up to a week of annual charity leave after an initial period of employment.

OUR APPROACH

Corporate responsibility is an integral part of Lancashire's approach to its business. We limit the negative impact of our carbon footprint through mitigation strategies and offsets, and we try to improve the world around us in positive ways such as the donations by the Foundation and the allocation of staff charity days to work on local improvement projects. As well as the direct benefits, we believe that Lancashire reaps indirect benefits in terms of its attraction as an ethical and compassionate employer, and the positive team-building benefits of the activities undertaken. In terms of governance, the LHL Board sets the policy for corporate donations to the Foundation and reviews reports on its activities (and is represented directly by a Non-Executive Director as one of the Foundation's Trustees). The LHL Board also sets the policy for the execution of the HR function, and the environmental impact of the business. The day-to-day activities of the Foundation are delegated to a Donations Committee comprised entirely of staff members from across our operating platforms, which monitors and reports on the activities of the charities to which donations are made.

During 2015, the UK government introduced legislation requiring qualifying companies to publish details of how they respond to the problem of modern slavery. Lancashire has a relatively low headcount (less than 200 employees globally), all of whom are remunerated on a basis which comfortably exceeds UK minimum wage requirements. In the ancillary services and limited supply chains used by the Group, Lancashire seeks to receive assurance that its service providers pay a living wage. Concerns over human rights issues with insureds and potential clients are addressed as part of the underwriting process. The Board has also recently approved a statement addressing modern slavery and human trafficking concerns, which can be found on the Lancashire website.

We focus on the following four areas:

- Community (see page 45)
- Environment (see page 47)
- Marketplace (see page 48)
- Workplace (see page 48)

COMMUNITY

We remain strongly committed to engaging with our local communities in Bermuda and London and continue to support local initiatives and activities across the network, through partnerships with schools, local government and local businesses.

OUR APPROACH

We support our communities through the Foundation by making donations to locally based charities and through our staff charity day release programmes and charity leave. In 2015, we donated funds to a number of charities providing activities and care to disadvantaged children in London during the summer holidays. In Bermuda we continue to sponsor a morning fresh fruit programme for primary school children, and have from time to time held staff raffles, bake sales and other fundraising efforts.

OUR FOCUS AREAS

We focus on victims of disasters and those who are disadvantaged and excluded whether through lack of opportunity, lack of resources or just in need of a helping hand. As our business is in part based on insuring against natural disasters we know very well how disruptive they can be, so the largest Foundation donation is to Médecins Sans Frontières (MSF), who provide immediate aid in crisis situations (both natural and man-made) right across the globe. The Foundation has made significant financial commitments to charities that support families in crisis (Family Centre) and children with autism (Tomorrow's Voices) in Bermuda, and charities supporting ex-offenders throughout the UK (St Giles Trust), and a poverty relief programme in the Philippines (ICM). But we also support them in other ways, for instance renovating premises for Tomorrow's Voices, mentoring staff members for St Giles Trust and sending volunteers on week-long service missions to ICM.

$15.5m

donated by the Lancashire Foundation since inception.

We also make donations to charities suggested by staff and indeed by clients and brokers. In 2015, we supported RP Fighting Blindness, Pancreatic Cancer UK, Back Up Trust, Batten Disease Family Association, War Child, School of Hard Knocks and The Brain Tumour Charity, all at the suggestion of our business partners, helping to build the sense of an insurance community in Bermuda and London.

EMPLOYEE ENGAGEMENT

We recognise that the energy and talents of the people of Lancashire can make a difference in a number of ways, and that our charitable partnerships offer a valuable way to channel these generous instincts. We provide day release programmes for staff to give back to the communities in which they live and around the world. In addition, staff are entitled to up to a week's annual charity leave on completion of three years' permanent employment with the Group, which they can spend with a charity of their choice or with an existing Foundation-supported entity. The Lancashire Foundation also operates a charity matching scheme to support individual staff members' charitable initiatives. During 2015 such matched funds from the Foundation amounted to $25,033 and supported 12 charities.

CORPORATE RESPONSIBILITY IN ACTION

The Family Centre

"Having just completed our 25th anniversary year, we look back over the years and are overwhelmed with gratitude for all of the supporters who have contributed to our many milestones. The funding from Lancashire has been instrumental in assisting us to provide consistent counselling support to the highest risk families in Bermuda. This incredible, reliable support led us to choose Lancashire as our Donor of the Year for 2014. In 2015, in addition to their incredibly generous donation, they also purchased a new van for our organisation!

Family Centre's core mission and services are aimed at helping families to get back on track to ensure a brighter future for their children. We do this through our intensive counselling services, training and community programmes. There is a powerful quote that has always resonated with me: 'One hundred years from now, it will not matter what kind of car I drove, what kind of house I lived in, how much was in my bank account, nor what my clothes looked like. But the world may be a little better because I was important in the life of a child.' With Lancashire's help, I believe we are achieving this.

Thank you for your incredible commitment and meaningful investment which is helping us to make a difference in the lives of vulnerable children and their families all across Bermuda."

Martha Dismont,
Executive Director, The Family Centre

From left to right: Elaine Whelan, Martha Dismont and Jennifer Wilson with the van donated by the Lancashire Foundation in 2015.

CORPORATE RESPONSIBILITY IN ACTION

Project Transform

Every year, since 2010, six to eight employees from across the Group volunteer to travel to the Philippines and work alongside ICM for a week providing aid and support to those living in ultra-poverty. The 2015 Project Transform volunteers have reflected on their experience and summarised their thoughts below:

"The general feeling amongst the team before we set off was that the trip would provide a morale building and motivational opportunity that would enrich and challenge our day-to-day lives. However, the experiences that we had were much more profound; witnessing the work of ICM in the communities that we encountered and who briefly, and so kindly, let us into their lives, took us well outside of our individual and collective comfort zones.

We worked with communities for whom the opportunities that we take for granted – of education, shelter and aspirations – are not readily available, but their dignity and determination to change their lives for the better was truly humbling.

Overall, the experience of working together in both a physically and emotionally tough environment is something that will always bond us as a team. The ultimate reward, however, is the feeling of accomplishment and utmost respect for the work ICM undertake in those communities on a daily basis.

It was a privilege to demonstrate to those we met that we care and that they are not forgotten."

40

members of staff have volunteered to participate in ICM's Project Transform in the Philippines since 2010.

The 2015 Project Transform team pictured from left to right – Neeta Shah, Michael Bambury, Elaine Whelan, Aftab Akram, Rhys Dominique, Hayley Johnston, Michael Bush and Kimberley Thompson.

ENVIRONMENT

With operations in London and Bermuda, and with clients and brokers around the globe, the Lancashire Group generates the bulk of its carbon footprint as a result of airline travel, which we offset through an organised programme. In 2014, the Lancashire Group consolidated its UK operations into 20 Fenchurch Street, which complies with all the latest standards for energy use and recycling. As a result, total emissions from electricity have decreased by 21 per cent compared with 2014.

Types of Emissions	Activity	2015 tCO_2e	2014 tCO_2e
Direct (Scope 1)	Gas (kWh)	60.4	40.3
	Refrigerant	0.0	13.0
Indirect (Scope 2)	Electricity (kWh)	590.2	751.6
Indirect (Scope 3)	Business Travel (km)	1,754.4	1,270.9
	Additional Upstream Activities	346.6	334.3
	Other	63.7	67.4
Total		**2,815.3**	**2,477.5**
Intensity metric:			
Staff number – 192 FTE			
Total Emissions (tCO_2e)			
Intensity ratio per FTE		14.7	12.9

100%

of our 2015 CO_2 emissions offset.

OUR APPROACH

The figures in this report are calculated over a 12 month period from 1 January 2015 to 31 December 2015. Lancashire has elected to use the number of full-time employees (FTE) as its intensity metric. Emissions per FTE rose from 12.9 tCO_2e per FTE in 2014 to 14.7 tCO_2e per FTE in 2015, an increase of 14.0 per cent, driven by the increase in air travel. Where data was not available for 2015, values were estimated using the corresponding months from the previous year or by using industry benchmarks.

OUR FOCUS AREAS

Using an operational control approach, Lancashire assessed its boundaries to identify all of the activities and facilities for which it is responsible and reported on all of the material greenhouse gas (GHG) emissions including Scope 1, 2 and 3. Calculations performed follow the ISO-14064-1:2006 standard and give absolute and intensity factors for the Group's emissions.

Results show that GHG emissions in the year were 2,815.3 tonnes of CO_2e, comprised of direct emissions (Scope 1) amounting to 60.4 tonnes of CO_2e, and indirect emissions (Scope 2) amounting to 590.2 tonnes of CO_2e. The source of other indirect emissions (Scope 3) comprised 2,164.7 tonnes of CO_2e. Emissions from business travel have increased by 38.0 per cent compared to 2014, due to a 22.0 per cent increase in total km travelled by air. Total emissions for 2015 increased by 13.6 per cent compared with 2014. In the current challenging underwriting environment this increase in travel emissions has been driven principally by an increase in international client visits, particularly on long-haul flights to Japan and the Far East.

Lancashire has purchased carbon credits to reduce its gross GHG emissions by 2,815.3 tonnes, offsetting its total carbon emissions and remaining carbon neutral.

The Group has chosen to offset its carbon emissions with Carbon Clear by buying credits from the Mokla wind power project in India. These offsetting proposals were discussed and agreed with the Group's CEO.

MARKETPLACE

We continue to help the development of our marketplace by making employees available to sit on market committees, boards and working groups. In 2015, our employees have given talks at industry conferences, investor days and symposia, and as part of market education programmes. As noted on page 45, we also donate to many of the causes supported by our industry partners through the Foundation.

OUR APPROACH

We believe the most important thing we can do is to make the talents of our people available, and we do this happily. We also engage actively with our regulators in Bermuda and London, and the Cathedral team are active within the Lloyd's market. With our clients and their brokers we are happy to welcome them to our offices, but we also travel to see them and their businesses right around the world.

OUR FOCUS AREAS

- Regulators: we recognise the need to engage closely with our regulators at the BMA, PRA, FCA and at Lloyd's and seek to be transparent in all our dealings with them.
- Clients: we strive to offer clear, fairly-priced and useful products that meet our clients' needs across our three capital bases.
- Brokers: we are fully committed to supporting a 'broker market' and prize our broker relationships very highly right across the Group.
- Investors: we continue to work hard at investor relations and have an active programme of engagement with investors around the globe.

100%

of our employees are eligible for RSS awards.

WORKPLACE

We strive to attract and retain excellent employees who drive our appetite to outperform. Every company says it, but we truly believe that the talents of our people and our unique culture set us apart from our competitors.

Recruiting the right people for the Group will always be a high priority for the business. It is critical that the aspirations and values of new recruits are a good match to both the role and the values of Lancashire.

The Group promotes an inclusive environment that recognises and values diversity as key to enhancing individual development and maximising business effectiveness. One way in which we seek to increase diversity, and the values of the Group, is through our 'Respect in the Workplace' training sessions which are given to all new employees during their induction. The training sessions aim to highlight their responsibilities in preventing discrimination in the workplace.

Among the full-time staff, the turnover for the Group for 2015 was 8.9 per cent (down from 11.3 per cent in 2014), and as at 31 December 2015, 3.5 per cent of the workforce was composed of third party contractors, down from 6.6 per cent in 2014.

Lancashire complies with all relevant local UK and Bermudian legal requirements, in particular with respect to rights of freedom of association, collective bargaining and working time regulations.

INTERNSHIP PROGRAMME

Since 2014, both the Group and the Foundation have jointly sponsored two internship positions for Bermuda resident college graduates. These graduates have been afforded the opportunity to spend two years working and learning about insurance in the Group's London office and are due to complete their placements during 2016. The two-year term is a major commitment which demonstrates the Group's determination to give back to Bermuda and, given the success of our first two interns, the Group is now in the process of re-advertising the programme, with the hope of welcoming two new graduates to the London office in the summer of 2016.

OUR FOCUS AREAS

Our focus in 2015 has been to maintain the success of our employees through ongoing training and coaching – provided both internally and externally. During 2015 almost 30 per cent of our employees undertook formal training supported by the Group. We continue to measure our employees' success through attainment of personal performance metrics as well as performance within the Group's values framework. We are delighted that during 2015 approximately 5 per cent of our employees were promoted within the Group supported by the training and development opportunities provided.

EMBRACING DIVERSITY

We are committed to being an equal opportunities employer. The Lancashire Group is currently represented by employees from 13 different nations. The gender split of males to females (see page 68) within the Group is 62/38 per cent respectively.

We continue to promote the value of having a diverse workforce by supporting the 'Ban the Box' campaign, an initiative from Business in the Community to give ex-offenders better employment opportunities by calling for the removal of tick boxes from employment application forms that ask about criminal convictions. Recruiting the right people for the Group is a high priority for the business and we promote the value of having a diverse workforce. We base all recruitment decisions on the ability of our prospective employees to do the job, without consideration to race, age, gender, sexual orientation, disability, beliefs, or background. Ban the Box aligns with our commitment to being an equal opportunities employer. The campaign further aligns with our corporate social responsibility efforts, in particular our partnership with St Giles Trust, a charity which supports ex-offenders and prepares them for training and employment opportunities.

CORPORATE RESPONSIBILITY IN ACTION

St Giles Trust (SGT)

"Some of our most important services have been able to flourish despite a challenging funding landscape thanks to the wonderful support we get from the Lancashire Foundation. These services fill the gaps which are not met through statutory agencies and without our interventions many of the clients we serve would be in freefall.

Our clients are some of the most vulnerable members of society. Many have multiple issues around homelessness, mental health, substance misuse and repeat offending histories. Their needs are complex and for many St Giles Trust is one of the few places which is able to engage with them effectively.

Throughout 2015, we developed our Peer Assist digital resettlement platform, which uses the latest digital technology to offer easily accessible, high quality online and over-the-phone resettlement support to anyone who needs it. Since its launch in February 2015, it is now receiving around 40-60 calls a day and has had 7,300 plus visits to its website. Lancashire's support has been vital in helping us develop the platform through enabling us to adapt our telephony and infrastructure.

But it's not only the financial support that we feel so passionate and thankful about. Lancashire staff visited our project in HMP Send in July 2015 and met with some of the women working for us as Peer Advisors in the prison. The visit made a real impression on the women in the prison, who are always amazed that anyone is interested in them and their futures. Former Peer Advisors make up around 40 per cent of our paid staff and Lancashire staff are actively supporting this by volunteering as mentors to some of our up and coming ex-offender caseworker staff.

David Hart, Caseworker at SGT, commented on the mentoring support received from Lancashire staff: "I feel like having someone so experienced has given me great confidence when approaching certain issues, it's great to be able to speak with someone who can offer great advice, but not only great advice but something sensible and relevant to what the issue is".

Voluntary funding is the lifeblood of St Giles Trust as it gives us the ability to innovate and tackle difficult and complex issues. On behalf of our staff and clients, we thank Lancashire for your kind support."

Rob Owen OBE,
Chief Executive, St Giles Trust

Staying ahead *of the pack*

Outperforming the competition comes from more than just the players on the pitch, and our management do more than just sit in the stands. We achieve our goals through strategic leadership and experienced direction.

GOVERNANCE

Martin Thomas
Non-Executive Chairman

STRATEGIC CREATIVITY

Good governance is not about slavishly following rules, but creating a structure with the flexibility to facilitate constructive debate and creative strategic decision making.

In my opening statement I gave a broad overview of the challenges addressed by the Board during 2015 in ensuring that our business has the necessary flexibility to identify and meet its strategic goals in a challenging market. The following section contains a more detailed account of the work carried out by the Board and its Committees in exercising effective oversight, taking decisions and providing support and constructive challenge to the business.

Q | *How does the Board set and monitor the governance objectives for the Group?*

Lancashire seeks to achieve the highest standards of corporate governance. By virtue of its premium listing on the LSE, Lancashire measures its corporate governance compliance against the requirements of the UK Corporate Governance Code published by the UK FRC. The FCA requires each company with a premium listing to 'comply or explain' against the Code (i.e. to disclose how it has complied with Code provisions or, if the Code provisions have not been complied with, provide an explanation for the non-compliance). The Group monitors its compliance with the Code on at least a quarterly basis, and in this corporate governance section and throughout this Annual Report for the 2015 financial year, areas of corporate governance compliance are explained by reference to the Code. The Company also monitors its compliance with applicable corporate governance requirements under Bermuda law and regulations. I am pleased to be able to report that there are no areas of material non-compliance with the Code. This formal consideration of governance requirements is a useful driver for the structuring of agendas and the consideration of matters which are of real commercial and strategic benefit to the Group.

Q | *Is the Board effective?*

In my opening remarks I noted that 2015 had been a year of continuity and consolidation in the composition of our Board and management team. I would like to thank all of our Directors for the diligence with which they have discharged their duties during the year. During 2015 we took the opportunity to use the services of Lintstock (a third-party provider of board evaluation services) who worked with the Board and the business to review the effectiveness of our Board, its Committees and our Directors. A summary report was discussed by the full Board and I am pleased to report the conclusion that the Board and each of its Committees are considered to have a balance of skills and perspectives that serve the Group effectively and to meet the challenges of the business. As a Board we have also gained useful insights and identified various areas for training and learning during the coming year.

The acid test for Board effectiveness is the quality of strategic debate and decision making. I am confident that we have a Board which demonstrably shows strategic leadership in its insightful and informed debate and interaction with the management team and the business.

Q | *What changes have there been to the management teams during 2015?*

As a Board we have welcomed Steve Hartley and Jas Bolla to the business as the Head of Internal Audit and Head of Human Resources respectively. Louise Wells, formerly Head of Internal Audit, has been appointed as Group Chief Risk Officer and we have also welcomed Beverley Todd to our LICL subsidiary Board (as a Non-Executive Director and Chairman). We have bid farewell to Charles Mathias (our former Group Chief Risk Officer) and Dan Soares (the former LICL Chairman) as well as Peter Scales and John Lynch (respectively the CEO and CFO of the Cathedral Group and also Directors on the CUL Board) and we thank them all for their contributions to the success of our business over many years.

Q | *How does the Board shape and embed a healthy corporate culture?*

Whilst as a Board we have formally adopted a set of values which we expect to inform and enhance the conduct of our business, and against which we appraise the performance of our employees, these are not a false construct or an imposition from above, but real working tools owned by everyone in our business. Good team work is essential to all our operations, we look for passion and a commitment to success in our people – for hard work, loyalty and an understanding of, and commitment to, our strategy and commercial objectives. Perhaps most importantly we are committed to values of respect. Amongst our workforce and on our Boards we value the benefits of a broad diversity, and we strive for our dealings with clients and counterparties to be honest, open and characterised by a strong sense of both individual and corporate integrity. We take particular pride in the facts that with three women among our eight Directors Lancashire is within the top ten FTSE 250 boards in terms of its gender diversity; and that 38 per cent of the Group's employees are women (see page 68 for further details).

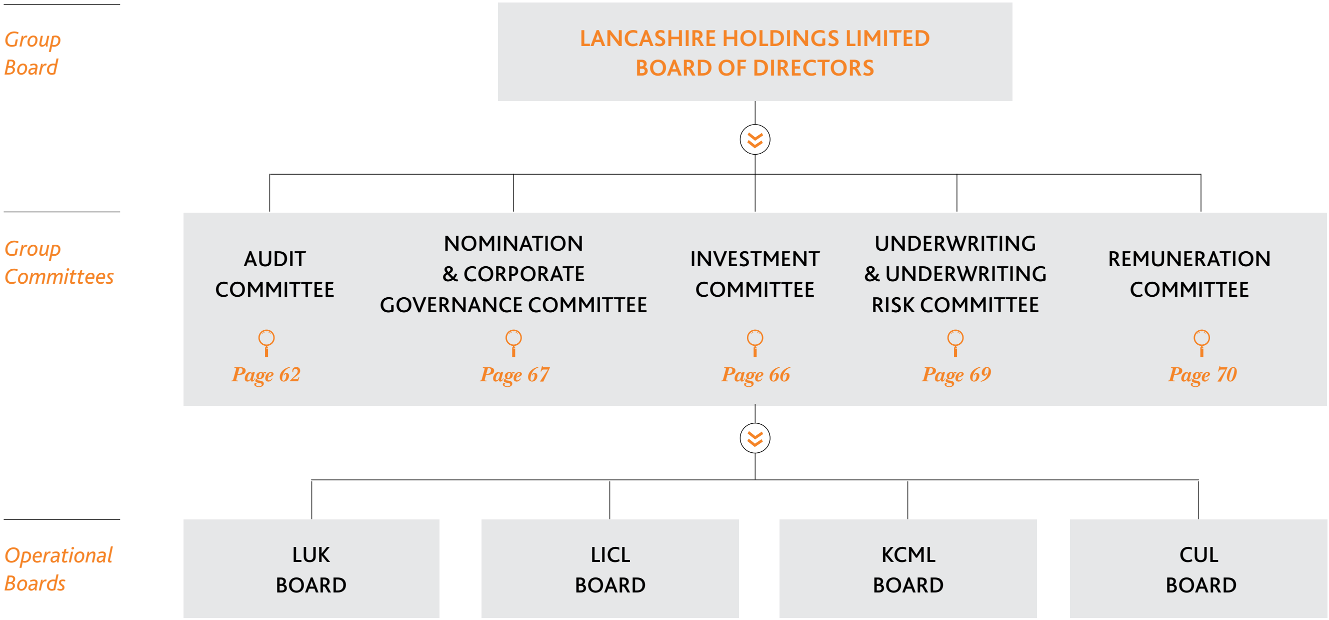
Martin Thomas
Non-Executive Chairman

Beverley Todd has extensive experience of international insurance and reinsurance, specifically with JLT Insurance Management where she has held senior roles in Bermuda and Florida. In particular, she has a detailed knowledge of Bermuda's insurance regulatory framework which will be invaluable in her role as Chairman of the LICL Board of Directors.

INTRODUCING: BEVERLEY TODD

I am pleased to welcome Beverley Todd to the Lancashire Group as the Chairman of the Board of LICL, our Bermuda operating subsidiary. Beverley has extensive knowledge of the governance and administration of Bermuda based insurance companies and her wealth of insurance and operational experience will further enhance the strong nexus of governance arrangements within the Group.

OUR GOVERNANCE STRUCTURE



Group Board

LANCASHIRE HOLDINGS LIMITED BOARD OF DIRECTORS

Group Committees

AUDIT COMMITTEE – *Page 62*

NOMINATION & CORPORATE GOVERNANCE COMMITTEE – *Page 67*

INVESTMENT COMMITTEE – *Page 66*

UNDERWRITING & UNDERWRITING RISK COMMITTEE – *Page 69*

REMUNERATION COMMITTEE – *Page 70*

Operational Boards

LUK BOARD

LICL BOARD

KCML BOARD

CUL BOARD

BOARD OF DIRECTORS

From left to right:
Elaine Whelan, Christopher Head, Alex Maloney, Martin Thomas, Tom Milligan, Samantha Hoe-Richardson, Peter Clarke, Simon Fraser, Emma Duncan

GOVERNANCE

OUR TEAM

MARTIN THOMAS (AGE 52),
NON-EXECUTIVE CHAIRMAN

Martin Thomas is a partner and board member of Altima Partners, LLP, the hedge fund manager, and a Director of el Tejar Limited. Prior to this, he was an official of the Bank of England, most recently on secondment to the EU Commission where he worked in the Financial Services Policy and Financial Markets Directorate of the Internal Market and Services Directorate General. Before Mr Thomas joined the Commission, he established the Financial Markets Law Committee at the Bank of England. Prior to that, he was Deputy Chief Executive of the Financial Law Panel and prior to that, senior counsel to the European Central Bank in Frankfurt. He started his career in private practice, specialising in corporate and commercial litigation at Travers Smith and in the law and regulation of financial services at Clifford Chance.

ALEX MALONEY (AGE 42),
CHIEF EXECUTIVE OFFICER

Alex Maloney joined Lancashire in December 2005 and was appointed Group Chief Executive Officer in April 2014. On joining, Mr Maloney was responsible for establishing and building the energy underwriting team and account and, in May 2009, was appointed Group Chief Underwriting Officer. Since November 2010 Mr Maloney has served as a member of the Board and was appointed Chief Executive Officer of Lancashire Insurance Company (UK) Limited in 2012. Mr Maloney also serves as a Director of Cathedral Underwriting Limited and has been closely involved in the development of the Group's Lloyd's strategy. Mr Maloney has over 20 years' underwriting experience and has also worked in the New York and Bermuda markets.

ELAINE WHELAN (AGE 41),
CHIEF FINANCIAL OFFICER

Elaine Whelan joined Lancashire in March 2006 and leads both the Group finance function and the Bermuda subsidiary, reporting to the Group Chief Executive Officer. Ms Whelan was previously Chief Accounting Officer of Zurich Insurance Company, Bermuda Branch. Prior to joining Zurich, Ms Whelan was an Audit Manager at PricewaterhouseCoopers, Bermuda, where she managed a portfolio of predomintely (re)insurance and captive insurance clients. Ms Whelan graduated from the University of Strathclyde in 1994 with a BA in Accounting and Economics and gained her Chartered Accountancy qualification from the Institute of Chartered Accountants of Scotland in 1997.

PETER CLARKE (AGE 56),
NON-EXECUTIVE DIRECTOR

Peter Clarke was Group Chief Executive of Man Group plc between April 2007 and February 2013. In 1993 Mr Clarke joined Man Group plc, a leading global provider of alternative investment products and solutions as well as one of the world's largest futures brokers. He was appointed to the board in 1997 and served in a variety of roles, including Head of Corporate Finance and Corporate Affairs and Group Company Secretary before becoming the Group Finance Director in 2000. During this period he was responsible for investing in and developing one of the leading providers of third-party capital insurance and reinsurance products. In November 2005, he was given the additional title of Group Deputy CEO. Mr Clarke is currently the Chairman of the National Teaching Awards Trust and a Non-Executive Director of both AXA Investment Managers S.A. and Lombard Odier Asset Management. He is a member of the Treasury Committee of King's College London. Mr Clarke took a first in Law at Queens' College, Cambridge and is a qualified solicitor, having practised at Slaughter and May, and has experience in the investment banking industry, working at Morgan Grenfell and Citibank.

EMMA DUNCAN (AGE 56),
NON-EXECUTIVE DIRECTOR

Emma Duncan is the Editor of Intelligent Life, The Economist's sister magazine. She was Deputy Editor of The Economist and has held several other posts on the magazine, including Britain Editor and Asia Editor. She has covered the media business, the Middle East, home affairs, agriculture, commodities and the transport industry and has served as Delhi correspondent, covering India, Pakistan, Bangladesh and Sri Lanka. She has written special reports for the magazine on Saudi Arabia and the Gulf states, India, Pakistan and the food industry. Ms Duncan appears regularly on television and radio programmes. She has written widely on a freelance basis, for publications such as The Times, The Sunday Times, The Daily Telegraph, Vogue and Cosmopolitan. She has an honours degree in politics, philosophy and economics from Oxford University and started her career as a researcher and reporter at Independent Television News.

SIMON FRASER (AGE 52),
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Simon Fraser was Head of Corporate Broking at Merrill Lynch and subsequently Bank of America Merrill Lynch until his retirement in 2011. He began his career in the City in 1986 with BZW and joined Merrill Lynch in 1997. He led Initial Public Offerings, Rights Issues, Placings, Demergers and Mergers and Acquisitions transactions during his career and advised many UK companies on stock market and LSE issues. Mr Fraser has an MA degree in modern history from the University of St Andrews. He is also a Non-Executive Director of Legal and General Investment Management (Holdings) Limited and Derwent London plc, where he chairs the Remuneration Committee and sits on the Audit and Nominations Committees.

SAMANTHA HOE-RICHARDSON (AGE 45),
NON-EXECUTIVE DIRECTOR

Samantha Hoe-Richardson, who since 2014 has been Chairman of the Audit Committee, is Head of Environment and Sustainability for Network Rail. Prior to this, she was Head of Environment for Anglo American plc, one of the world's leading mining and natural resources companies. She was also a director of Anglo American Zimele Green Fund (Pty) Ltd, which supports entrepreneurs in South Africa. Prior to her role with Anglo American, Ms Hoe-Richardson worked in investment banking and audit and she holds a masters degree in nuclear and electrical engineering from the University of Cambridge. She also has a chartered accountancy qualification.

TOM MILLIGAN (AGE 46),
NON-EXECUTIVE DIRECTOR

Tom Milligan was Co-Chief Executive Officer of Ariel Re Holdings Ltd., until his retirement in 2015. He began his career in the City in 1991 with Guy Carpenter & Co. and worked in both London and Bermuda as an insurance intermediary and underwriter. In 2005, Mr Milligan joined Goldman Sachs Group Inc. to start the GS Reinsurance Group's non-life activities. As a Managing Director of Goldman Sachs, Mr Milligan served as Chief Underwriting Officer of Arrow Capital Re in Bermuda, before starting Goldman Sachs-owned Lloyd's Syndicate 1910 in 2008 and serving as Active Underwriter until 2012. In 2012, Mr Milligan led Goldman Sachs' purchase of Ariel Re and served as Co-CEO from April 2012 until July 2014. During 2013, Mr Milligan played a leading role in the spin-off of GS Reinsurance Group into Global Atlantic Financial Group (GAFG), before managing the sale of the Ariel businesses from GAFG to BTG Pactual in 2014. He is also a Non-Executive Director of Managing Agency Partners Limited. Mr Milligan graduated from Durham University in 1991.

CHRISTOPHER HEAD (AGE 49),
COMPANY SECRETARY

Christopher Head joined Lancashire in September 2010. Mr Head is Company Secretary of Lancashire Holdings Limited and advises on issues of corporate governance and generally on legal affairs for the Group. Prior to joining Lancashire, Mr Head was in-house Counsel with the Imagine Insurance Group, advising specifically on policy wording and the structuring of reinsurance transactions. He transferred to Max at Lloyd's in 2008 as Lloyd's and London Counsel. Between 1998 and 2006 Mr Head was Legal Counsel at KWELM Management Services Limited, where he managed an intensive programme of reinsurance arbitration and litigation for insolvent members of the HS Weavers underwriting pool. Mr Head is a qualified solicitor having trained at Barlow Lyde and Gilbert where he worked in the Reinsurance and International Risk Team. Mr Head has a history degree and legal qualification from Cambridge University, where he was a choral scholar in the choirs of King's College and Trinity College.

HIGHLIGHTS OF THE BOARD'S YEAR

FEBRUARY / Q1 MEETING

- As part of its ongoing consideration of talent management and succession planning, the Board appointed Tom Milligan as a Non-Executive Director with effect from 3 February 2015 and as a member of the Investment Committee and the Underwriting and Underwriting Risk Committee.
- Following its quarterly review of capital management, the Board declared special and final ordinary dividends of $0.50 per common share and $0.10 per common share, respectively, in respect of the year ended 31 December 2014.
- The Board reviewed and approved the Group's 2015 business plan that had been updated in light of the 1 January renewals and current market conditions.
- The Board approved and adopted the Group's 2015 framework for executive remuneration, including the three-year policy for Executive Directors' remuneration. The Group's Annual Report on Remuneration, as set out in the second part of the Directors' Remuneration Report for the year ended 31 December 2014, was approved for presentation to shareholders at the 2015 AGM.

APRIL / Q2 MEETING

- The Board approved and adopted the Group's three-year strategic plan, including the Group's risk, and capital and solvency appetites.
- The Board reviewed and adopted the Group's 2015 investment strategy.
- The Board received an annual investor relations presentation from the Group's corporate brokers.
- The Company's 2015 AGM was held at its Head Office on 29 April 2015. All resolutions were duly passed and approved by shareholders casting their votes.

JUNE

- The Board approved the appointment of Louise Wells to the role of Group Chief Risk Officer with effect from 28 July 2015, subject to the relevant regulatory approval.

JULY / Q3 MEETING

- The Board reviewed and approved the Group's 2015 reforecast business plan in light of the 1 July renewals and actual experience to 30 June.
- The Board declared an interim dividend of $0.05 per common share.
- The Board approved amendments to the Group's investment portfolio guidelines and to the terms of reference of the Investment Committee.
- In light of industry M&A activity, the Board approved changes to the companies comprising the Group's peer group for comparator purposes.

JULY / Q3 MEETING CONTINUED

- The Board approved an updated statement on the representation of women on the Board, on executive committees and in senior management, which is published on the Group's website.
- The Board approved the constitution of the RROC for the purpose of supporting it in reviewing Solvency II and other regulatory and public reporting outputs, and approved and adopted the RROC's terms of reference.

NOVEMBER / Q4 MEETING

- The Board considered the Group's 2016 business plan.
- The Board declared a special dividend for 2015 of $0.95 per common share.
- The Board received a final Solvency II project report following its transition to 'business as usual'.
- The Board approved and adopted an updated division of responsibilities between the Chairman and the CEO, together with the Group's updated succession plan.
- The annual performance evaluation of the Board and its Committees and individual Directors was conducted, facilitated by Lintstock Limited.

DECEMBER

- The warrants to purchase the Company's common shares that were issued on 16 December 2005 expired on 16 December 2015. All outstanding warrants were exercised prior to the date of expiry.

BOARD COMMITTEES

BOARD AND COMMITTEE ADMINISTRATION

The Board of Directors is responsible for the leadership and control and the long-term success of Lancashire's business. The Board has reserved a number of matters for its decision, including responsibility for setting the Group's values and standards, and approval of the Group's strategic aims and objectives. The Board has delegated certain matters to Committees of the Board, as described below. Copies of the Schedule of Board Reserved Matters and Terms of Reference of the Board Committees are on the Company's website at www.lancashiregroup.com.

The Board has approved and adopted a formal division of responsibilities between the Chairman and the CEO. The Chairman is responsible for the leadership and management of the Board and for providing appropriate support and advice to the CEO. The CEO is responsible for the management of the Group's business and for the development of the Group's strategy and commercial objectives. The CEO is responsible with the executive team for implementing the Board's decisions.

The Board and its Committees meet on at least a quarterly basis. At the regular quarterly Board meetings, the Directors review all areas of the Group's business and receive reports from management on underwriting, reserving, finance, capital management, internal audit, risk, compliance and other matters affecting the Group. Management provides the Board with the information necessary for it to fulfil its responsibilities. In addition, presentations are made by external advisers such as the independent actuary, the investment managers, the external auditors, the remuneration consultants and the corporate brokers. The Board Committees are authorised to seek independent professional advice at the Company's expense.

The Board also meets to discuss strategic planning matters outside the formal meeting schedule.

The Chairman holds regular meetings with the Non-Executive Directors without the Executive Directors present, to discuss a broad range of matters affecting the Group.

THE DIRECTORS

Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board considers all of the Non-Executive Directors to be independent within the meaning of the Code.

Peter Clarke, Emma Duncan, Simon Fraser, Samantha Hoe-Richardson and Tom Milligan are independent, as each is independent in character and judgement and has no relationship or circumstance likely to affect his or her independence. Martin Thomas was independent upon his appointment as Chairman on 1 May 2007. At the Board meeting held on 17 February 2016, further to a recommendation by the Nomination and Corporate Governance Committee, the Board affirmed its judgement that five of the eight members of the Board are independent Non-Executive Directors. Therefore, in the Board's judgement, the Board composition complies with the Code requirement that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent.

In accordance with the provisions of the Code, all the Directors of the Company are submitting themselves for re-election at the 2016 AGM with the exception of Martin Thomas, who will retire from the Board at the conclusion of the AGM.

INFORMATION AND TRAINING

On appointment, the Directors receive written information regarding their responsibilities as Directors and information about the Group. An induction process is tailored for each new Director in the light of his or her existing skill set and knowledge of the Group, and includes meeting with senior management and visiting the Group's operations. Information and advice regarding the Company's official list, legal and regulatory obligations and on the Group's compliance with the requirements of the Code, is also provided on a regular basis. An analysis of the Group's compliance with the Code is collated and summarised in quarterly reports together with a more general summary of corporate governance developments, which are prepared by the Group's Legal and Compliance department for consideration by the Nomination and Corporate Governance Committee. The Directors have access to the Company Secretary who is responsible for advising the Board on all legal and governance matters. The Directors also have access to the Group General Counsel and independent professional advice as required. Regular sessions are held between the Board and management as part of the Company's quarterly Board meetings, during which in-depth presentations covering areas of the Group's business are made. During these presentations the Directors have the opportunity to consider, challenge and help shape the Group's commercial strategy.

BOARD PERFORMANCE EVALUATION

A formal performance evaluation of the Board, its Committees and individual Directors is undertaken on an annual basis and the process is initiated by the Nomination and Corporate Governance Committee. The aim of this work is to assess the effectiveness of the Board and its Committees in terms of performance, composition, supporting processes and management of the Group, as well as to review each Director's performance, training and development needs. The 2012 performance evaluation was facilitated by external consultants, whilst in 2013 and 2014 the evaluation was conducted internally.

The 2015 performance evaluation of the Board was facilitated by Lintstock Limited, a London-based corporate advisory firm with no other connection to the Group. The evaluation process involved each Director as well as the Company Secretary, the Group Chief Risk Officer and the Group General Counsel completing a confidential online questionnaire designed by Lintstock and the Nomination and Corporate Governance Committee. Responses to the completed questionnaires were collated by Lintstock, who then interviewed all of the respondents individually to discuss the operation and performance of the Board, each of the Committees, the Chairman and the Directors. Lintstock prepared a suite of reports which were discussed in draft with the Chairman before being distributed to each of the Directors.

In February 2016, the Lintstock performance evaluation reports were discussed at meetings of the Nomination and Corporate Governance Committee and the Board and each of the other Committees discussed the report pertinent to its own operation and performance. The Board discussions were led by the Chairman and focused on such matters as strategic oversight, succession planning, Board composition and training.

In summary, in the Board's consideration of the 2015 evaluation reports the Board concluded that it operates effectively and has a good blend of insurance, financial and regulatory expertise. All Non-Executive Directors are committed to the continued success of the Group and to making the Board and its Committees work effectively. Attendance at Board meetings was found to be good. The CEO and the CFO, the Company's Executive Directors, were also found to be operating effectively.

Appropriate infrastructure, processes and governance mechanisms are in place to support the effective performance of the Board and its Committees. The Board is considered to manage risk effectively. The number of Directors on the Board is considered to be appropriate.

The process proved a useful learning exercise. The Board identified a number of areas for training for the coming year and also discussed options to optimise the focus of agendas, Board and Committee materials and flows of management information to the Board. The Board will also prioritise the implementation of a more formal staff training and talent management programme across the Group during 2016.

The Board will continue to review its procedures, training requirements, effectiveness and development in 2016.

The Chairman's performance appraisal was conducted by the Senior Independent Director, who consulted with the Non-Executive Directors with input from the Executive Directors during July 2015. The Non-Executive Directors also discussed the report prepared by Lintstock addressing the Chairman's performance at the Board meeting held in February 2016. The Chairman's performance was found to be effective.

At the end of the year, the Chairman met with the CEO, and the CEO met with the CFO, to conduct a performance appraisal in respect of 2015 and to set targets for 2016. The results of these performance evaluations were discussed by the Chairman and the Non-Executive Directors and are reported in the Directors' Remuneration Report commencing on page 71.

	Original date of appointment to Board	Board	Audit Committee	Investment Committee	Nomination and Corporate Governance Committee	Underwriting and Underwriting Risk Committee	Remuneration Committee
Non-Executive Directors							
Peter Clarke[1]	9 June 2014	6/6	4/4	4/4	_	_	8/8
Emma Duncan	4 August 2010	4/6	–	3/4	4/5	_	7/8
Simon Fraser	5 November 2013	6/6	4/4	–	_	_	8/8
Samantha Hoe-Richardson	20 February 2013	6/6	4/4	–	5/5	–	–
Tom Milligan[2]	3 February 2015	6/6	–	3/3	–	3/3	_
Martin Thomas[3]	15 September 2006	6/6	–	_	4/5	–	–
Executive Directors							
Alex Maloney	5 November 2010	6/6	–	–	–	4/4	_
Elaine Whelan	1 January 2013	6/6	–	4/4	–	_	–

(1) Peter Clarke was appointed as Chairman of the Investment Committee with effect from 11 February 2015.

(2) Tom Milligan was appointed as a Non-Executive Director with effect from 3 February 2015. He was appointed as a member of the Investment Committee and of the Underwriting and Underwriting Risk Committee with effect from 11 February 2015.

(3) Martin Thomas was conflicted from attending the meeting of the Nomination and Corporate Governance Committee held on 19 June 2015.

RELATIONS WITH SHAREHOLDERS

During 2015, the Group's Head of Investor Relations, usually accompanied by one or more of the CEO, the CUO, the CFO, the Chairman or a senior member of the underwriting team, made presentations to major shareholders, analysts and the investor community. Formal reports of these meetings were provided to the Board on at least a quarterly basis.

Conference calls with shareholders and analysts hosted by senior management are held quarterly following the announcement of the Group's quarterly financial results. The CEO, CUO and CFO are generally available to answer questions at these presentations.

Shareholders are invited to request meetings with the Chairman, the Senior Independent Director and/or the other Non-Executive Directors by contacting the Head of Investor Relations. All of the Directors are expected to be available to meet with shareholders at the Company's 2016 AGM.

The Company commissions regular independent shareholder analysis reports together with independent research on feedback from shareholders and analysts following the Company's results announcements. This research, together with the analysts' notes, is made available to all Directors.

ENTERPRISE RISK MANAGEMENT

The Board is responsible for setting the Group's risk appetites and preferences, defining its risk tolerances, and monitoring and ensuring compliance with risk tolerances. During 2015, the Board carried out a robust assessment of the principal risks affecting the Group's business model, future performance, solvency and liquidity.

Further discussion of the risks affecting the Group and the policies in place to manage them can be found in the risk disclosures section on pages 112 to 138.

Each of the Committees is responsible for various elements of risk. The CRO reports directly to the Group and subsidiary Boards and facilitates and aids the identification, evaluation, quantification and control of risks at a Group and subsidiary level. The CRO provides regular reports to the Group and subsidiary Boards covering, amongst other things, actual risk levels against tolerances, emerging risks and any lessons learned from risk events. The Board considers that a supportive ERM culture, established at the Board and embedded throughout the business, is of key importance. The facilitating and embedding of ERM and helping the Group to improve its ERM practices is a major responsibility assigned to the CRO. During 2015 the Board created the RROC to assist in risk management and reporting (see page 39 for further details). The Group's risk management is informed by the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The CRO's remuneration is subject to annual review by the Remuneration Committee.

COMMITTEES

The Board has established Audit, Investment, Nomination and Corporate Governance, Underwriting and Underwriting Risk and Remuneration Committees. Each of the Committees has written Terms of Reference, which are reviewed regularly and are available on the Company's website (www.lancashiregroup.com). The Committees' Terms of Reference were reviewed by the Board during 2015 and some amendments were made to the Terms of Reference of the Investment Committee. The Committees are generally scheduled to meet quarterly, although additional meetings are arranged as business requirements dictate.The composition of the Committees as at 31 December 2015 was as set out in the table appearing above. A report from each of the Committees is set out from page 62 to page 70.

Samantha Hoe-Richardson
Chairman of the Audit Committee

AUDIT COMMITTEE

> *"The Audit Committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control." (FRC – Guidance on Audit Committees).*

SHR

COMMITTEE MEMBERSHIP

The Audit Committee comprises three independent Non-Executive Directors and is chaired by Samantha Hoe-Richardson, a qualified accountant. The Board considers that the three independent Non-Executive Directors all have recent and relevant financial experience. The internal and external auditors have the right of direct access to the Audit Committee. The Audit Committee's detailed Terms of Reference are available on the Company's website.

	Meetings attended
Samantha Hoe-Richardson (Chairman)	4/4
Peter Clarke	4/4
Simon Fraser	4/4

This report sets out the detailed responsibilities of the Committee as well as the significant areas of judgement or estimation focused on during the year.

SIGNIFICANT AREAS OF JUDGEMENT OR ESTIMATION

LOSS RESERVES AND EXPENSES

As detailed on pages 155 to 157 of the consolidated financial statements, the estimation of ultimate loss reserves is a complex actuarial process that incorporates a significant amount of judgement. The Committee considers the adequacy of the Group's loss reserves at each Audit Committee meeting, for which purpose it receives quarterly reports from the Group's Reserving Actuary. Ernst & Young LLP (EY) conduct a high level review of the Group's loss reserves as part of their Q1 and Q3 review procedures. Both the Reserving Actuary and EY present a comparison of Lancashire's reserves to their own best estimates at the Q2 and Q4 Audit Committee meetings. During 2015, the Committee focused its discussions around the Group's loss reserves on: the range of reasonable actuarial estimates and the divergence of the Group's estimates to the external actuarial estimates; current and prior year loss development including 'back-testing' of the Group's prior year reserves; and reserving for each insurance operating subsidiary. Having reviewed and challenged these areas, the Committee concurred with management's valuation of the Group's loss reserves and the relevant disclosures around loss reserving in the Group's consolidated financial statements.

INTANGIBLE ASSET VALUATION

The Company has two indefinite life intangible assets following the acquisition of Cathedral – goodwill and syndicate participation rights. Intangible assets with indefinite useful lives are subject to an impairment review at least annually or sooner if there is an indication of impairment. Some of the key inputs in the impairment review are based on management judgement and/or estimation (see page 108 of the consolidated financial statements for further details). These inputs are reviewed by the Audit Committee annually and are considered reasonable. The Audit Committee also considers the Company's internal stress tests and what stress scenarios would have to occur to indicate an impairment of its intangible assets. As a result of these considerations the Audit Committee agreed that there was no indication of an impairment of the Company's intangible assets and that the carrying value of these assets was reasonable.

PRIORITIES FOR 2016

The Committee's priorities for 2016 are to ensure the continued effectiveness of the Company's control environment and the integrity of external financial reporting. During the year the Chairman of the Audit Committee will also lead a comprehensive and competitive external audit tender process for the provision of external audit services commencing in the 2017 financial year.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2015

FINANCIAL REPORTING

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors the integrity of the Company's consolidated financial statements and any other formal announcement relating to the Company's financial performance. Reports to the Board on significant financial reporting issues and judgements contained in the financial statements.	At each quarterly meeting the Committee reviews the Company's quarterly financial statements for the purposes of recommending their approval by the Board. The Committee also monitors the activities of the Company's Disclosure Committee and reviews the Company's quarterly financial press releases, which it recommends to the Board for approval. The Committee receives quarterly reports from management on: • developments in accounting and financial reporting requirements; • any new and/or significant accounting treatments/transactions in the quarter; and • loss reserving (see page 155 for further details). An annual paper is also presented that details the areas of judgement or estimation in the financial statements (see accounting policies page 106 for the details of these areas). Periodically the Audit Committee also undertakes a more detailed analysis of specific topics, such as its review of the accounting and disclosure for the Group's equity compensation plans undertaken in the third quarter of 2015. The Committee also considers quarterly reports on the financial statements from the external auditors, including an interim review report and a year-end audit results report. These are discussed with the external auditors at the Committee's meetings. Of the areas of judgement or estimation considered by the Committee in 2015, those that were considered significant are loss reserving and the valuation of intangible assets. These are explained in further detail on page 62. In accordance with auditing guidance, the external auditors' report includes revenue recognition through the estimation of premium revenues as an area of risk. The Audit Committee considered this and concluded that for Lancashire revenue recognition is straightforward and low risk. While some premiums are subject to estimation, revenues are unlikely to be materially different from initial estimates, particularly on a consolidated Group basis.
Reviews the content of the Annual Report and Accounts and advises the Board on whether, taken as a whole, it is fair, balanced and understandable.	The Chairman of the Committee reviews early drafts of the Annual Report and Accounts to keep appraised of its key themes and messages and to raise any issues early in the process. The Committee reviewed the 2015 Annual Report and Accounts at the February 2016 Audit Committee meeting and advised the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

SOLVENCY II

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors developments in the Solvency II regime.	A quarterly report was provided during 2015 to the Audit Committee by the CRO detailing the Company's progress towards meeting its Solvency II requirements. During 2015, the RROC was constituted by the Board to support it in reviewing Solvency II and other regulatory and public reporting outputs following the implementation of the Solvency II regime on 1 January 2016 when the PRA became the Group supervisor. The members of the RROC are the CEO, the CFO, the CRO and at least two Non-Executive Directors (currently Peter Clarke and Martin Thomas). The Group meets the requirements of the new regime and a comprehensive training programme has been put in place to ensure that all Board members are able to discharge their Solvency II responsibilities during 2016.

EXTERNAL AUDIT

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Oversees the relationship with the Group's external auditors and is responsible for assessing annually their independence and objectivity, taking into account the relevant professional and regulatory requirements, specifically including: • An annual assessment of the qualifications, expertise and resources of the external auditors and the effectiveness of the external audit process.	The Committee reviews reports from the external auditors at each quarterly Committee meeting including the annual audit plan and an ongoing assessment of the effective performance of the audit compared to the plan. The Committee Chairman conducts informal meetings with the auditors and the CFO prior to, during, and after the quarterly results. The Committee meets in executive session with the external auditors and with management at least twice per annum. During 2015, an assessment of the effectiveness of the external audit process was conducted by the Company's senior management with input from the Committee Chairman and the external auditors. The review enabled the Audit Committee to determine that the external audit process was effective and to note some minor development areas for future audits.
• The implementation of a policy on the supply of non-audit services to ensure that the provision of non-audit services by the external auditors does not impair their independence and objectivity.	The Committee has approved and adopted a non-audit services policy that is reviewed on an annual basis and was last updated in October 2015. The policy, which stipulates rules around approvals required for various types of non-audit services, can be found on the Company's website. During 2015, EY provided non-audit services in relation to UK taxation. Fees for non-audit services provided in 2015 totalled $0.1 million representing 7.4 per cent of total fees paid to EY. The Committee gave careful consideration to the nature of the non-audit services provided and the level of fees charged, and has determined that they would not affect the independence and objectivity of EY as auditors.
• Making a recommendation to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditors.	The Committee has recommended to the Board the re-appointment of EY to perform the 2016 external audit. EY have been the Group's external auditors since 2005 and Angus Millar has been the lead audit partner since 2012. When making its recommendation to the Board, the Committee considered and had regard to EY's length of tenure and any non-audit services provided during the year, and continued to be satisfied with EY's performance, independence and objectivity, level of fees charged, compliance with ethical standards and policy on audit partner rotation. During 2014, the Board approved a recommendation by the Committee that the external audit contract for the provision of external audit services commencing in the financial year 2017 be put out to tender during 2016. This is consistent with the mandatory rotation of the current EY lead audit partner. A recommendation will then be made to shareholders at the 2017 AGM.

INTERNAL AUDIT

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Monitors and reviews the effectiveness of the Group's Internal Audit function in the context of the Group's overall risk management system.	The Group's Internal Audit function reports directly to the Committee. Each year the Head of Internal Audit presents an audit plan to the Committee for consideration and approval. The key objective of Internal Audit is to audit on at least an annual basis those areas of the Group's business that are deemed to pose the greatest risk to the achievement of the Group's business objectives, and to audit all other areas of the Group's operations at least once every three years. The findings of each internal audit are reported to the Committee at the quarterly meetings. The Committee has a responsibility to ensure the timely implementation of agreed management actions and to review the status of these at its meetings. During 2015, the Committee reviewed and approved an updated Internal Audit Charter. This can be viewed on the Company's website. An assessment of the effectiveness of the Internal Audit function was conducted by the executive, with a report issued to the Committee. The Committee discussed the report and its findings with the executive and the Head of Internal Audit and noted that no significant issues were raised. The Committee concluded that the Internal Audit function is operating effectively and efficiently in the context of the Group's overall risk management system, and is adequately resourced. The Committee also appointed a new Head of Internal Audit.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

COMMITTEE RESPONSIBILITY	COMMITTEE ACTIVITIES
Reviews the adequacy and effectiveness of the Group's internal financial controls and internal control and financial risk management systems (including financial, operational and compliance controls).	The Board has ultimate responsibility for maintaining a robust framework of internal controls and risk management and for overseeing and ensuring the effectiveness of the Group's risk management and internal control systems and has delegated the monitoring and review of this framework to the Committee. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Committee receives an annual paper detailing the effectiveness of the Company's internal controls, which is reviewed and discussed by the Committee. This paper covers all material controls including financial, operating and compliance controls. In 2015, the Committee was satisfied that the Company's internal control framework was operating effectively.
Reviews for adequacy and security of the Company's 'whistleblowing' arrangements, procedures for detecting fraud and systems and controls for the prevention of bribery and money laundering.	During 2015, the Committee reviewed and recommended the adoption by the Board of updated policies and procedures for anti-money laundering, bribery and financial crime, conflicts of interest and whistleblowing. The Committee regularly reviews the Company's procedures for detecting fraud. The Committee also keeps under review the adequacy and effectiveness of the Company's legal and compliance function.

Peter Clarke
Chairman of the Investment Committee

"The focus of the Committee continues to be on capital preservation and liquidity to support and complement the Group's underwriting operations."

INVESTMENT COMMITTEE

COMMITTEE MEMBERSHIP

The Investment Committee comprises three Non-Executive Directors and one Executive Director (the CFO) together with the Head of Investments and Treasury (who is not a Director).

	Meetings attended
Peter Clarke (Chairman)[1]	4/4
Emma Duncan	3/4
Tom Milligan[2]	3/3
Denise O'Donoghue	4/4
Elaine Whelan	4/4

(1) Peter Clarke was appointed as Chairman of the Investment Committee with effect from 11 February 2015.

(2) Tom Milligan was appointed as a member of the Investment Committee with effect from 11 February 2015.

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Recommend investment strategies, guidelines and policies for the Board of the Company and other members of the Group to approve annually.
- Recommend and set risk asset definitions and risk tolerance levels.
- Recommend to the relevant Boards the appointment of investment managers to manage the Group's investments.
- Monitor the performance of investment strategies within the risk framework.
- Establish and monitor compliance with investment operating guidelines relating to custody of investments, internal controls and accounting.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2015

During 2015, the Investment Committee undertook a strategic asset allocation study that resulted in recommended changes to the Group asset allocations. The Committee also recommended changes to the Company's investment guidelines.

The Committee considered regular reports on investment performance, asset allocation and compliance with pre-defined guidelines and tolerances.

PRIORITIES FOR 2016

The Investment Committee will continue to focus on achieving the appropriate balance of risk and return in the implementation of the Group's investment strategy, preserving capital and managing interest rate risk.

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Martin Thomas
Chairman of the Nomination and Corporate Governance Committee

> *"A particular focus of the Committee during 2015 has been succession planning for the Board and its Committees to ensure their continued effective performance through continuity of leadership."*

COMMITTEE MEMBERSHIP

A majority of the members of the Nomination and Corporate Governance Committee are independent Non-Executive Directors. The Committee Chairman is Martin Thomas, who is the Chairman of the Board.

	Meetings attended
Martin Thomas[1] (Chairman)	4/5
Emma Duncan	4/5
Samantha Hoe-Richardson	5/5

(1) Martin Thomas was conflicted from attending the meeting of the Nomination and Corporate Governance Committee held on 19 June 2015.

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board.
- Consider succession planning for Directors and other senior executives.
- Nominate candidates to fill Board vacancies.
- Make recommendations to the Board concerning Non-Executive Director independence, membership of Committees, suitable candidates for the role of Senior Independent Director and the re-election of Directors by shareholders.
- Review the Company's corporate governance arrangements and compliance.
- Oversee donations by the Group to the Lancashire Foundation and to monitor the activities of the Foundation.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2015

BOARD COMPOSITION

The Committee reviewed the composition of the Board to ensure that the balance of skills, experience and diversity continued to be appropriate for the Group's business to meet the strategic objectives. The Committee also considered whether any additional skills and experience would be needed, either to complement those already on the Board, or to plan for filling vacancies due to the retirement of Directors. Following Martin Thomas's decision to retire from the Board at the 2016 AGM, the Committee recommended the appointment of Peter Clarke as Chairman of the Board.

In its consideration of the appointment of a new Chairman, the Committee noted that an independant external search consultancy had been used in relation to the appointments of Peter Clarke and Tom Milligan as Non-Executive Directors in 2014 and 2015, respectively. It was therefore agreed that given this process, and the availability of Peter Clarke as a very strong candidate, the utilisation of a further external search consultancy or open advertising would be of little benefit to the Company at this time. The Committee recommended changes to the composition of the Investment Committee and the Underwriting and Underwriting Risk Committee during the year.

SUCCESSION PLANNING

The Committee reviewed the Company's succession plan for Executive Directors and other senior executives, taking into account the Company's risk environment and strategic objectives, as well as the anticipated demands of the business. A particular area of focus during 2015 has been that of talent development and monitoring. Following the appointment of Jas Bolla as the Group Head of HR effective talent mapping and management has been identified as an area for further development and standardisation across the Group in the coming year.

APPOINTMENT OF DIRECTORS TO SUBSIDIARY BOARDS

In early 2016 the Committee recommended to the Board the appointment of Beverley Todd to the role of Chairman of the Board of LICL.

CORPORATE GOVERNANCE

The Committee keeps under review the Company’s corporate governance, particularly compliance with the Code, and is responsible for making recommendations to the Board concerning the process for conducting and facilitating the annual performance evaluation of the Board, its Committees and the individual Directors – see page 60.

During 2015, the Committee recommended the adoption by the Board of revised Terms of Reference for the Investment Committee. It also made recommendations to the Board regarding the Terms of Reference and membership of a new RROC that was established to support the Board in reviewing Solvency II and other regulatory and public reporting outputs.

The Nomination and Corporate Governance Committee also recommended the approval by the Board of an updated protocol for the division of responsibilities and roles of the Chairman and Group CEO and the responsibilities and reporting lines of the CEOs of Group subsidiaries.

The Committee recommended approval by the Board of an updated statement on the representation of women on the Board, on executive committees and in senior management. This is published on the Company’s website. In the context of Lord Davies's reports, the Committee recognises the benefits that a broad diversity of skills, experience and gender, amongst other factors, brings to enhance Board performance, but considers that quotas are not the best option for achieving diversity.

The Committee considered statistics relevant to the gender composition of the Board, Group management excluding Non-Executive Directors, and overall Group employees. These statistics are shown opposite.

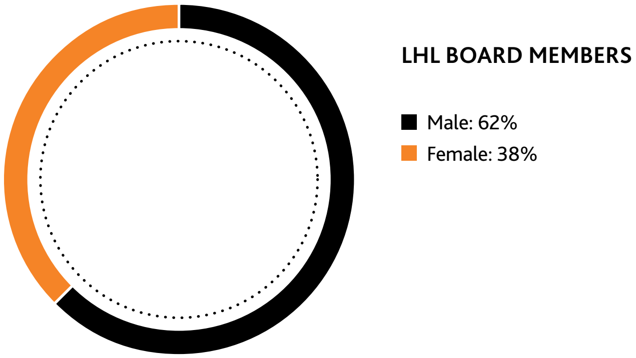
The Committee recommended the approval and adoption by the Board of a statement on slavery and human trafficking, which is published on the Company’s website. The Group is committed to social responsibility and has zero tolerance for slavery and human trafficking.

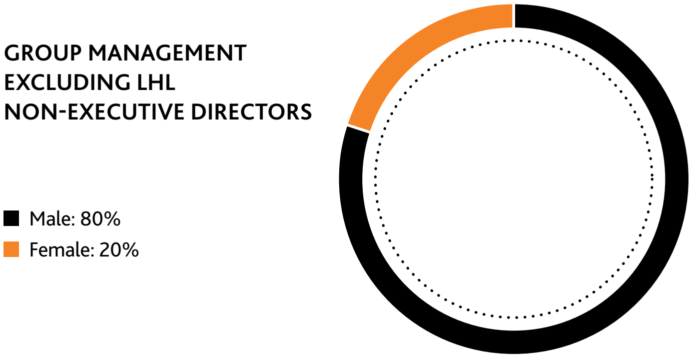
THE LANCASHIRE FOUNDATION

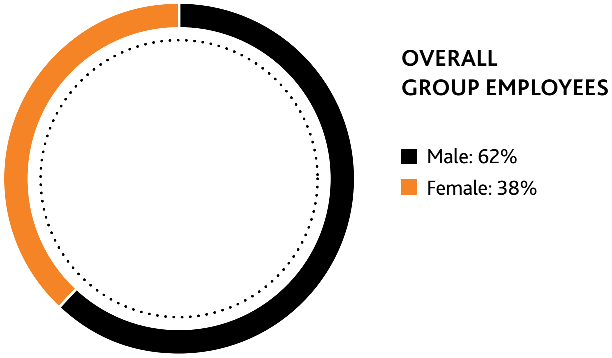
The Committee is responsible for monitoring and making recommendations to the Board in relation to the Company’s charitable giving policy and the operation of, and reporting requirements for, the Lancashire Foundation.

PRIORITIES FOR 2016

The Nomination and Corporate Governance Committee’s priorities for 2016 will include a continued focus on corporate governance matters, and on succession planning, to support management in the development of talent planning within the business.







Alex Maloney
Chairman of the Underwriting and Underwriting Risk Committee

> *"The Committee is an important forum for discussing and setting the right underwriting risk appetites. It also monitors the Company's underwriting performance against the risk tolerances."*

COMMITTEE MEMBERSHIP

The Underwriting and Underwriting Risk Committee comprises one Executive Director (the Group CEO) and one Non-Executive Director together with the Group CUO, the CUO of LICL, the CUO and Reinsurance Manager of LUK and the Head of Capital Modeling (who are not Directors).

	Meetings attended
Alex Maloney (Chairman)	4/4
Paul Gregory	3/4
Hayley Johnston	3/4
Tom Milligan[1]	3/3
Sylvain Perrier	4/4
Ben Readdy	4/4

(1) Tom Milligan was appointed as a member of the Underwriting and Underwriting Risk Committee with effect from 11 February 2015.

UNDERWRITING AND UNDERWRITING RISK COMMITTEE

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Formulate Group underwriting strategy.
- Oversee the development of, and adherence to, underwriting guidelines by operating company CUOs.
- Review underwriting performance.
- Review significant changes in underwriting rules and policies.
- Establish, review and maintain strict underwriting criteria and limits.
- Monitor underwriting risk and its consistency with the Group's risk profile and risk appetite.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2015

Underwriting risk is one of the key risks faced by the Group, and the Committee is actively engaged in the development of strategy and underwriting risk tolerances, which are approved by the Board. The Committee also monitors underwriting performance on a quarterly basis. In what has been a challenging ratings environment, Lancashire continues to prioritise good risk selection first and foremost, and the portfolio mix since inception has been relatively stable. The soft market has presented opportunities for the business to increase its reinsurance purchasing thereby de-risking the portfolio. The strategic underwriting priority for the business is to service the needs of clients and their brokers and thereby build a core book of business capable of sustaining a relevant and viable operation over the insurance cycle. During 2015, the Cathedral platform has afforded opportunities for new lines of business within the Lloyd's market through the ongoing build out of Syndicate 3010. The Committee has also received regular reports on the progress made in the development of the Kinesis platform during 2015. The Committee receives quarterly reports of significant claims to the business.

During 2015, the Committee meetings were open to attendance by all the Board members and provided a useful forum for the discussion of underwriting performance, risk tolerances and strategic initiatives. The Committee and Board place great importance on the management of the Company's capital so as to match capital to the underwriting requirements of the business.

A more detailed analysis of the Lancashire underwriting performance appears in the Business Review section of this Annual Report and Accounts on pages 30 to 38.

PRIORITIES FOR 2016

For the coming year the Underwriting and Underwriting Risk Committee will continue to monitor the development of a forward-looking and disciplined underwriting strategy appropriate for the Group's three underwriting platforms, within a framework of appropriate risk tolerances.

REMUNERATION COMMITTEE

Simon Fraser
Chairman of the Remuneration Committee

> *“The Committee seeks to align the interests of the Company’s owners with those of its senior executives. Our remuneration policy affords financial rewards that are closely linked to performance.”*

Simon Fraser.

COMMITTEE MEMBERSHIP

The Remuneration Committee comprises three independent Non-Executive Directors.

	Meetings attended
Simon Fraser (Chairman)	8/8
Peter Clarke	8/8
Emma Duncan	7/8

PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE

- Set the remuneration policy for the Company’s Chairman, the Executive Directors, Company Secretary and other designated senior executives, to deliver long-term benefits to the Company.
- Determine the total individual remuneration packages, including pension arrangements, of the Company’s Chairman, the Executive Directors, Company Secretary and other designated senior executives. Agree personal objectives for each Executive Director and the related performance and pay-out metrics for the performance element of the annual bonus.
- Determine each year whether awards will be made under the Company’s restricted share scheme and, if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives, and the performance targets to be used.
- Ensure that contractual terms on termination or retirement, and any payments made, are fair to the individual and the Company.
- Oversee any major changes in employee benefit structures throughout the Group.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES DURING 2015

During 2015, the Committee reviewed the Group incentivisation packages to ensure that remuneration is structured appropriately to promote the long-term success of the Company. The Committee also reviewed the RSS structure for Executive Directors to ensure that the performance metrics continue to align the interests of the Company, its investors and management. The Committee considered the salary and bonus awards for 2015 for Executive Directors and other designated senior executives. The Committee also approved the grant of awards under the Company’s RSS.

The Committee reviewed Executive Directors’ shareholdings in the context of the Company’s share ownership guidelines for senior/key executives and modified the guidelines to introduce for Executive Directors a post-vesting two-year holding period for three-year performance-linked RSS awards, thereby increasing the alignment with shareholders on such awards to a period of at least five years.

The Committee also reviewed the policy for Executive Director remuneration which has a three-year life after it was approved by shareholders at the 2014 AGM. The Committee considers the policy fit for purpose and does not propose any amendments for the 2016 AGM.

The Directors’ Remuneration Policy and the Annual Report on Remuneration for which the Committee is responsible can be found on pages 71 to 88.

During 2015, the Committee undertook a review of, and recommended changes to, the companies comprising the Company’s peer group for comparator purposes in light of recent M&A activity. (A list of peer companies is on page 85.)

PRIORITIES FOR 2016

During the coming year, the Remuneration Committee will review the ongoing appropriateness and relevance of the Group’s remuneration structures. The Committee will also undertake a further review of the policy for Executive Director remuneration, for presentation to shareholders for approval at the 2017 AGM.

ANNUAL STATEMENT

Dear Shareholder,

I am pleased to present the 2015 Directors' Remuneration Report to shareholders.

As a company incorporated in Bermuda, LHL is not bound by UK law or regulation in the area of Directors' remuneration to the same extent that it applies to UK incorporated companies. However, by virtue of the Company's premium listing on the LSE, and reflecting the Committee's approach to good governance, shareholders were given the opportunity to approve our remuneration policy at the 2014 AGM. We are not proposing any changes to our remuneration policy this year and as the current policy on pages 74 to 76 has a three-year life, a new policy will be put forward for consideration at the 2017 AGM.

REMUNERATION AND STRATEGY

The Group's goal continues to be to reward its employees fairly and responsibly, by providing an appropriate balance between fixed and variable remuneration, linked to the achievement of suitably challenging Group and individual performance measures.

There is a strong link between the remuneration policy and the business strategy. As highlighted at the front of this Annual Report and Accounts, our strategy focuses on the effective operation of the business necessary to maximise long-term and sustainable RoE and the delivery of superior total shareholder returns on a risk-adjusted basis over the course of the insurance cycle. Our remuneration policy is closely aligned to this strategy.

PERFORMANCE OUTCOME FOR 2015

The Group has delivered solid results in a market which remained challenging during 2015 (see the performance review of this report on pages 81 to 84).

Against this background of challenging market conditions there was an increase in total remuneration of 5.1 per cent for the CEO between 2014 and 2015. For the CFO there was an increase of 28.9 per cent between 2014 and 2015 in total remuneration (see the comparison table for single figure remuneration on page 80). This movement is consistent with a warrant adjusted RoE of 13.5 per cent for 2015 compared to 14.7 per cent for 2014 and a total shareholder return of 25.9 per cent for the year compared to the disappointing -24.2 per cent for 2014 (see page 27 for further details). In the case of the CFO, it should be noted that the increase in total remuneration is principally the result of the vesting of the 2013 Performance RSS awards which were awarded following Elaine Whelan's promotion.

The annual bonus was focused on both absolute RoE and relative RoE and also on individual objectives. Executive Directors' performance targets set at the beginning of 2015 for financial performance were stretching, and reflecting the Company's 2015 performance were achieved at slightly above target level (and at 63 per cent of maximum bonus for the CEO and at 63 per cent of maximum bonus for the CFO), subject to confirmation of peer group performance data. The potential percentage of maximum bonus for both the CEO and CFO could rise to 78 per cent should the Company performance be ranked at or above the upper quartile against peers.

Consistent with the approach taken last year, due to the large number of outstanding warrants which were due to be, and were in fact, exercised prior to their expiry date in December 2015, and the potentially volatile impact of exercises on the annual bonus performance metrics, the Committee decided in respect of both the 2014 and 2015 years that for the annual bonus performance targets for both the absolute and relative elements there should be an adjustment for the impact of warrant exercises (including an adjustment for dividend equivalent payments made on outstanding warrants for the relative RoE calculation). Accordingly the warrant adjusted RoE used for purposes of the absolute RoE metric is 13.5 per cent, which represents an uplift of 2.6 per cent on the 2015 actual RoE of 10.9 per cent. For full details of Executive Directors' bonuses and the associated performance delivered see page 82.

In relation to long-term incentives, the 2013 Performance RSS awards were 75 per cent based on absolute RoE targets and 25 per cent on relative TSR against specified peer group companies over the three-year period to 31 December 2015. Our TSR performance (in USD) over this period ranked the Company below the median of the designated peer group of 11 companies, resulting in 0 per cent vesting for the TSR component. This, in part, was a reflection of the out-performance of the Company's share price relative to its peer group comparator companies in 2012, with a high base point resulting in a weaker TSR performance by comparison to peers during the relevant three-year period.

Our average RoE performance, adjusted for warrants, over this three-year performance period was 15.7 per cent against a threshold target of the 13-week Treasury bill rate plus 6 per cent and a maximum pay-out of the 13-week Treasury bill rate plus 15 per cent, resulting in 100 per cent of the RoE component of the 2013 Performance RSS award vesting. Overall, the 2013 performance RSS awards vested at 75 per cent. This compared to the overall 50 per cent vesting of the 2012 RSS Performance awards due to 100 per cent vesting of the RoE portion of the awards, which we reported last year.

The total remuneration received by our current Executive Directors in 2015 was higher than that received in 2014 (see page 80 for the comparison data). It is to be noted that in the current challenging underwriting environment total remuneration for Executive Directors is lower than in many previous years, as demonstrated by the chart of Total Remuneration History for the CEO on page 87. The Committee believes in setting challenging performance criteria and having a significant proportion of the overall package linked to Company performance. However, the Committee also recognises the need to ensure that Executive Directors are appropriately remunerated and incentivised even in the more challenging phases of the insurance cycle, as at present. It is also important that the Committee and the Board ensure that Executive Director compensation is structured in such a way so as not to encourage excessive risk to the business. The like for like employee costs for the Group were $80.1 million in 2015 compared with $77.4 million in 2014 (see page 143 for further detail).

Overall, in light of the annual and three-year performance delivered, the Committee is satisfied that there has been a robust link between performance and reward.

APPLICATION OF REMUNERATION POLICY FOR 2016

The Remuneration Committee has reviewed the policy approved by shareholders and considers it to remain fit for purpose. That said, we have made a number of changes in the way we will operate our policy for 2016.

- The minimum and maximum absolute RoE targets attached to our annual bonus plan have been modified to reflect the current challenging market environment. The target and maximum pay-out percentages have been maintained at 11 per cent and 19 per cent respectively. However, in order to reflect the market outlook and budgeted returns, the threshold target payout percentage has been reduced to 7 per cent. The Committee and Board consider that, in light of the challenging business environment and the need to moderate risk exposures in the current market, these targets are appropriate for the 2016 financial year.
- The Committee and Board have agreed an amendment to the management share ownership guidelines to stipulate that, in respect of future grants of RSS awards having a performance period of at least three years, Executive Directors are expected to hold the resultant vested RSS awards (or the resultant net of tax shares), for a further period of not less than two years following vesting. The additional two-year holding period is in line with recent institutional investor guidelines and, together with our management share ownership guidelines, provides further alignment between management and our shareholders.

The final section of this report is the Annual Report on Remuneration which provides detailed disclosure on how the policy will be implemented for 2016 and how Directors have been paid in relation to 2015.

The disclosures provide shareholders with the information necessary to form a judgement as to the link between Company performance and how the Executive Directors are paid. This Annual Statement together with the Annual Report on Remuneration will be subject to an advisory vote and I hope that you will be able to support the resolution at the forthcoming AGM.

Further to the Committee's commitment in last year's Annual Report and Accounts, the Committee has concluded that arrangements for our Executive Directors are appropriate and achieve the desired alignment of remuneration with performance.

The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters and I welcome any feedback you may have.

Simon Fraser
Chairman of the Remuneration Committee

DIRECTORS’ REMUNERATION POLICY SECTION

This part of the Directors’ Remuneration Report sets out the Remuneration Policy for the Company’s Directors. The policy has been developed taking into account the principles of the Code and the views of our major shareholders. The policy was voted into effect from the date of the 2014 AGM and is currently intended to operate until the AGM in 2017.

Although not required by the regulations, the substantive terms of the Remuneration Policy are reproduced below for ease of reference. However, any details that are specific to 2015 or earlier years (including, for example, the disclosure of the illustrative remuneration scenarios) have been updated where applicable. The full Policy Report approved by the Company's shareholders at the 2014 AGM can be accessed in the 2013 Annual Report on the Company's website.

GOVERNANCE AND APPROACH

The Company's Remuneration Policy is geared towards providing a level of remuneration which attracts, retains and motivates Executive Directors of the highest calibre to further the Company's interests and to optimise long-term shareholder value creation, within appropriate risk parameters. The Remuneration Policy also seeks to ensure that Executive Directors are provided with appropriate incentives to drive individual performance and to reward them fairly for their contribution to the successful performance of the Company.

The Remuneration Committee and the Board have considered whether any element of the current Remuneration Policy could conceivably encourage Executive Directors to take inappropriate risks and have concluded that this is not the case, given the following:

- there is an appropriate balance between fixed and variable pay, and therefore Executive Directors are not required to earn performance related pay to maintain their day-to-day living expenses;
- there is a blend of short-term and long-term performance metrics with an appropriate mix of performance conditions, meaning that there is no undue focus on any one particular metric;
- there is a high level of share ownership amongst Executive Directors, meaning that there is a strong focus on sustainable long-term shareholder value; and
- the Company has the power to claw back bonuses (including the deferred element of the annual bonus) and long-term incentive payments made to Executive Directors in the event of material misstatements in the Company’s consolidated financial statements, error in the calculation of any performance condition, or the Executive Director ceasing to be a Director and/or employee due to gross misconduct.

HOW THE VIEWS OF SHAREHOLDERS ARE TAKEN INTO ACCOUNT

The Committee Chairman and, where appropriate, the Company Chairman, will consult with major investors and representative bodies on any significant remuneration proposal relating to Executive Directors. Views of shareholders at the AGM, and feedback received at other times, will be considered by the Committee.

HOW THE VIEWS OF EMPLOYEES ARE TAKEN INTO ACCOUNT

The Remuneration Committee takes into account levels of pay elsewhere in the Group when determining the pay levels for Executive Directors. The Remuneration Policy for all staff is, in principle, the same as that for Executive Directors in that any of the Group’s employees may be offered similarly structured packages, with participation in annual bonus and long-term incentive plans, although award types (restricted cash or restricted stock) and size may vary between different categories of staff. For Executive Directors with higher remuneration levels, a higher proportion of the compensation package is subject to performance pay, share based remuneration and deferral. This ensures that there is a strong link between remuneration, Company performance and the interests of shareholders.

The Company does not consult with employees on Executive Directors’ remuneration. However, as noted above, the Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors.

POLICY TABLE

Base Salary

Purpose and Link to Strategy	Helps recruit, motivate and retain high-calibre Executive Directors by offering salaries at market competitive levels. Reflects individual experience and role.
Operation	Reviewed annually and fixed for 12 months, effective from 1 January. Positioning and annual increases influenced by: • role, experience and performance; • change in broader workforce salary; and • changes in responsibility or position. Salaries are benchmarked periodically against insurance company peers in the UK and in Bermuda.
Opportunity	No maximum.

Benefits

Purpose and Link to Strategy	Market competitive structure to support recruitment and retention. Medical cover aims to ensure minimal business interruption as a result of illness.
Operation	Executive Directors are entitled to healthcare, dental, vision, gym membership and life insurance. Executive Directors who are expatriates may be eligible for a housing allowance or other relocation-related expenses.
Opportunity	No maximum.

Pension

Purpose and Link to Strategy	Contribution towards funding post-retirement lifestyle.
Operation	The Company operates a defined contribution pension scheme (via outsourced pension providers) or cash-in-lieu of pension where contributions would exceed HMRC pension limits in the UK. There is a salary sacrifice structure in the UK. There is the opportunity for additional voluntary contributions to be made by individuals, if elected.
Opportunity	Company contribution is currently 10 per cent of base salary.

Annual Bonus[1,2]

Purpose and Link to Strategy	Rewards the achievement of financial and personal targets.
Operation	Bonus targets (percentage of salary) are based on mechanistic calculations for financial and personal performance. The precise weightings may differ each year, although there will be a greater focus on financial as opposed to personal performance. The Committee, based upon input from the CEO, will have the ability to override the results of any mechanistic bonus calculation to either increase or decrease the amount payable (subject to the cap) to ensure a robust link between reward and performance. At least 25 per cent of each Executive Director’s bonus is automatically deferred into shares as nil cost options over three years, with one third vesting each subsequent year. A dividend equivalent provision operates enabling dividends to be accrued (in cash or shares) on unvested deferred bonus shares in the form of nil cost options up to the point of exercise. If Lancashire’s comprehensive income in the relevant full financial year should be negative, there will be no pay-out possible under the Relative Financial Performance element (details of the bonus metrics are included on page 78 of the Annual Report). The bonus is subject to claw back if the financial statements of the Company were materially misstated or an error occurred in assessing the performance conditions on bonus and/or if the Executive ceased to be a Director or employee due to gross misconduct.

Opportunity[3]	Bonus for achieving target level of performance as a percentage of salary is: • CEO – 200 per cent • CUO – 175 per cent (note this is not currently an Executive Director position) • CFO – 150 per cent Maximum opportunity is two times target. Note: The Committee may set bonus opportunities less than the amounts set out above – see Implementation of Policy section of the Annual Report on Remuneration.
Performance Metrics	**Financial Performance** The financial component is based on the Company's key financial measures of performance. For any year, these may include RoE, growth in BVS, combined ratio, investment return or any other financial KPI[4]. A sliding scale of targets applies for financial performance targets. Bonus is earned on an incremental basis once a predetermined threshold level is achieved. 25 per cent of the total bonus opportunity is payable for achieving threshold/median rising to maximum bonus for stretch/upper quartile performance. The degree of stretch in targets may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. **Personal Performance** Personal performance is based upon achievement of clearly articulated objectives. A performance rating is attributed to participating Executive Directors, which determines the pay-out for this part of the bonus. The weightings applying to the bonus measures and the degree of stretch in objectives may vary each year depending on the business aims and the broader economic or industry environment at the start of the relevant year. For Executive Directors, the financial component will have a higher weighting than the personal element.

Long Term Incentives (LTI)

Purpose and Link to Strategy	Rewards Executive Directors for achieving superior returns for shareholders over a longer-term time frame. Enables Executive Directors to build a meaningful shareholding over time and align goals with shareholders.
Operation[2,4]	RSS awards are made annually in the form of nil cost options with vesting dependent on the achievement of performance conditions over at least three financial years, commencing with the year of grant. This three-year period is longer than the typical pattern of loss reserve development on the Group's insurance business, which is approximately two years. The number of awards will normally be determined by reference to the share price at 1 January in the year of grant unless the Committee at its discretion determines otherwise. The Remuneration Committee considers carefully the quantum of awards each year to ensure that they are competitive in light of peer practice and the targets set. Awards are subject to claw back if there is a material misstatement in the Company's financial statements, an error in the calculation of any performance conditions or if the Executive Director ceases to be a Director or employee due to gross misconduct. A dividend equivalent provision operates enabling dividends to be accrued (in cash or shares) on RSS awards up to the point of exercise.
Opportunity	Award levels are determined primarily by seniority. A maximum individual grant limit of 350 per cent of salary applies.
Performance Metrics	Awards vest at the end of a three-year performance period based on performance measures reflecting the long-term strategy of the business at the time of grant. These may include measures such as TSR, RoE/BVS, Company profitability or any other relevant financial measures. If more than one measure is used, the Committee will review the weightings between the measures chosen and the target ranges prior to each LTI grant to ensure that the overall balance and level of stretch remains appropriate. A sliding scale of targets applies for financial metrics with no more than 25 per cent vesting at threshold performance. For TSR, none of this part of the award will vest below median ranking and full vesting will require upper quartile performance or better. Awards vest on a proportionate basis for performance between the median and upper quartiles.

POLICY TABLE CONTINUED

Share Ownership Guidelines[5]

Under the guidelines, the CEO is expected to maintain an interest equivalent in value to no less than two times salary over time. For other Executive Directors the threshold is one times salary. Until such time as the guideline threshold is achieved Executive Directors are required to retain no less than 50 per cent of the net of tax value of awards that vest under the RSS.

Chairman and Non-Executive Directors' (NEDs) fees

Purpose and Link to Strategy	Helps recruit, motivate and retain a Chairman and Non-Executive Directors of a high calibre by offering a market competitive fee level.
Operation	The Chairman is paid a fee for his responsibilities as Chairman and also receives a separate fee for his position as Chairman of LUK. The level of these fees is reviewed periodically by the Committee and the CEO by reference to broadly comparable businesses in terms of size and operations. In general, the Non-Executive Directors are paid a single fee for all responsibilities, although supplemental fees may be payable where additional responsibilities are undertaken.
Opportunity	No maximum.

(1) The Committee operates the annual bonus plan and RSS according to their respective rules and in accordance with the Listing Rules. The Committee, consistent with normal market practice, retains discretion over a number of areas relating to the operation and administration of these plans and this discretion forms part of this policy.

(2) All historic awards that were granted under any current or previous share schemes operated by the Company but remain outstanding remain eligible to vest based on their original award terms and this provision forms part of the policy.

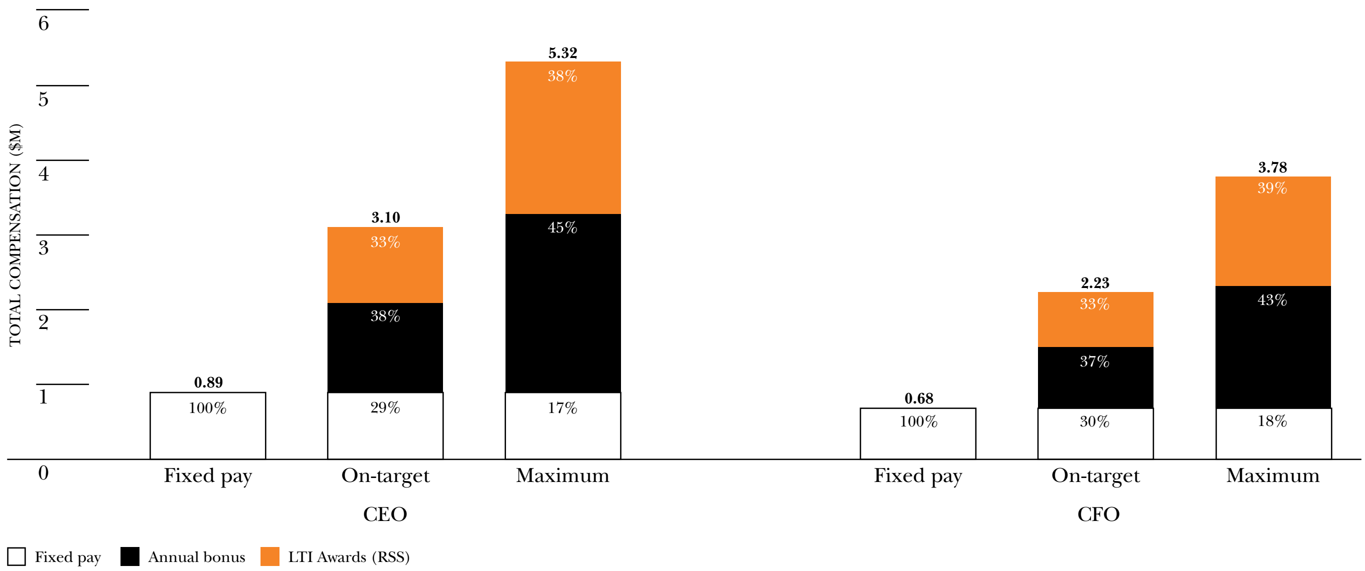
(3) The target bonuses set at the 2014 AGM in this policy were based on the incumbents in the roles at the time.

(4) Performance Measures: these may include the performance indicators shown on pages 26 to 27 or others described within the Annual Report and Accounts Glossary commencing on page 172.

(5) Share Ownership interest equivalent is defined as wholly owned shares or fully vested rights over shares; since November 2014 unvested annual RSS bonus awards do not count towards share ownership.

ILLUSTRATIONS OF ANNUAL APPLICATION OF REMUNERATION POLICY

The charts below show the potential total remuneration opportunities for the Executive Directors in 2016 at different levels of performance under the policy.



Fixed pay = 2016 Salary + Actual Value of 2015 Benefits + 2016 Pension Contribution.

On-target = Fixed Pay + Target Bonus (being half the Maximum Bonus Opportunity) + Target Value of 2016 RSS grant (assuming 50 per cent vesting with face values of grant).

Maximum = Fixed Pay + Maximum Bonus Opportunity + Maximum Value of 2016 RSS grant (assuming 100 per cent vesting shown as the face values of grant).

No account has been taken of any share price growth or dividend equivalent accruals.

APPROACH TO RECRUITMENT REMUNERATION

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. The annual bonus and LTI potential would be in line with the Policy. In addition, the Committee may offer additional cash and/or share based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may agree that the Company will meet certain relocation expenses as appropriate.

SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENT POLICY FOR EXECUTIVE DIRECTORS

Executive Directors have service contracts with six-month notice periods. In the event of termination, the Executive Directors' contracts provide for compensation up to a maximum of base salary plus the value of benefits to which the Executive Directors are contractually entitled for the unexpired portion of the notice period. No Executive Director has a contractual right to a bonus for any period of notice not worked.

The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service contract of any Executive Director. There are no special provisions in the service contracts for payments to Executive Directors on a change of control of the Company.

In the event of an exit of an Executive Director, the overriding principle will be to honour contractual remuneration entitlements and determine on an equitable basis the appropriate treatment of deferred and performance linked elements of the package, taking account of the circumstances. Failure will not be rewarded.

Depending on the leaver classification, an Executive Director may be eligible for certain payments or benefits continuation after cessation of employment.

If an Executive Director resigns or is summarily dismissed, salary, pension and benefits will cease on the last day of employment and there will be no further payments.

LEAVER ON ARRANGED TERMS OR GOOD LEAVER

If an Executive Director leaves on agreed terms, including compassionate circumstances, there may be payments after cessation of employment. Salary, pension and benefits will be paid up to the length of the agreed notice period or agreed period of gardening leave.

Subject to performance, a bonus may be payable at the discretion of the Committee pro-rata for the portion of the financial year worked.

Vested but unexercised deferred bonus shares will remain exercisable. Unvested deferred bonus shares will ordinarily vest in full, relative to the normal vesting period. All such vested awards must be exercised within 12 months of the vesting date. The Committee has discretion to permit such unvested awards to vest early rather than continue on the normal vesting timetable and also retains discretion, acting fairly and reasonably, as to whether or not to apply (or to apply to a lesser extent) the pro-rata reduction to the bonus shares where it feels the reduction would be inappropriate.

Vested but unexercised RSS awards may remain exercisable for 12 months. Unvested awards may vest on the normal vesting date unless the Committee determines that such awards shall instead vest at the time of cessation. Unvested awards will only vest to the extent that the performance conditions have been satisfied (over the full or curtailed period as relevant). A pro-rata reduction in the size of awards may apply, based upon the period of time after the grant date and ending on the date of cessation of employment relative to the three-year vesting period.

Depending upon circumstances, the Committee may consider other payments in respect of an unfair dismissal award, outplacement support and assistance with legal fees.

TERMS OF APPOINTMENT FOR NON-EXECUTIVE DIRECTORS

The Non-Executive Directors serve subject to the Company's Bye-laws and under letters of appointment. They are appointed subject to re-election at the AGM and are also terminable by either party on six months' notice except in the event of earlier termination in accordance with the Bye-laws. The Non-Executive Directors are typically expected to serve for up to six years, although the Board may invite a Non-Executive Director to serve for an additional period. Their letters of appointment are available for inspection at the Company's registered office and at each AGM. The Company encourages share ownership by the Non-Executive Chairman and Non-Executive Directors, and Non-Executive Directors who do not own shares are encouraged to use a proportion of their fees to buy shares in the Company and retain such shareholdings for their remaining periods of office.

In accordance with best practice under the Code, the Board proposes to submit the Directors individually for re-election by the shareholders at the 2016 AGM.

ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration together with the Chairman's Statement, as detailed on page 10, will be subject to an advisory vote at the 2016 AGM. The information on page 80 with respect to Directors' emoluments and onwards through page 88 has been audited.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2016

In relation to the Policy described in the previous section, the following section sets out additional disclosure on the expected application of the Policy for 2016.

BASE SALARY AND FEES

Executive Directors

Increases and resulting salaries effective from 1 January 2016 are set out below:

- CEO – salary increased by 3 per cent to $795,675.
- CFO – salary increased by 3 per cent to $546,364.
- For 2016, increases of 3 per cent are in line with the salary increases across the general workforce population.

Non-Executives

The Chairman's and Non-Executive Directors' fees are as follows for 2016:

- The fee for the outgoing Chairman is $325,000 per annum and the additional fee he receives for the role of Chairman of LUK is $100,000. These will be pro-rated up to the date of the 2016 AGM, when Martin Thomas intends to step down from the Boards.
- The fee for the incoming Chairman (Peter Clarke) is to be $350,000 per annum. Mr Clarke will not hold the additional position of Chairman of LUK. The Committee noted that the current LHL Chairman's fee had not been amended since 2010. New Bridge Street were commissioned to carry out a peer company benchmarking review. In light of that review, the Board decided to increase the fee for the incoming Chairman to ensure appropriate alignment with peers.
- The Non-Executive Director fee will remain at $175,000 per annum.

ANNUAL BONUS

For 2016, the CEO will have a target bonus of 150 per cent of salary and, therefore, a maximum opportunity of 300 per cent of salary which is within the approved policy limit and is in line with last year and represents a maximum bonus opportunity which is 100 per cent of salary less than the set policy limit. The CFO's target bonus opportunity will be in line with the policy at 150 per cent of salary (maximum 300 per cent).

The financial and personal portions of the annual bonus will remain unchanged with 75 per cent on financial performance and 25 per cent on personal performance.

Financial Performance (75 per cent)

The Company's most important financial KPI is RoE, which is the core indicator of the delivery of our strategic priorities of ensuring strong underwriting, effectively balancing risk and return and managing capital nimbly through the insurance cycle (see the strategic overview on pages 20 and 21 of this report). Accordingly, for 2016, the financial component comprises two parts – 60 per cent of this element is based on the performance of the Group's absolute RoE (measured as the internal rate of return of the change in the fully converted book value per share or 'FCBVS') plus dividends accrued and 40 per cent is based on the Group's relative RoE (measured by comparing the Group's growth in basic book value per share or 'BVS') performance against appropriate peer companies (peer companies can be located on page 85).

- Absolute RoE:
  Absolute financial performance is measured by growth in fully converted book value per share, plus dividends. A sliding scale range of RoE targets is set with 25 per cent of bonus target payable if the threshold level of RoE is achieved (being 7 per cent), rising to 100 per cent of bonus target being payable for target growth in RoE of 11 per cent and 200 per cent of bonus target being payable for achieving the maximum RoE growth target of 19 per cent or higher. There is linear interpolation between these points. The Board considers that these target ranges are appropriately challenging in a difficult market and that the stretch target of 19 per cent would represent exceptional performance in the current market, but without encouraging excessive risk taking. The Committee and Board considers these targets to be appropriate to the present risk appetite given the current challenging insurance market conditions.
- Relative RoE:
  Relative financial performance is measured by comparing the Group's growth in basic book value per share, plus dividends, measured against an identified comparator group of companies which can be seen on page 85. Payout will be based on performance against a sliding scale with no payout (0 per cent) for below median performance, 50 per cent of target shall be payable for achieving a median ranking, and up to 200 per cent of target shall be payable for upper quartile performance or better. Payout for performance in between the median and upper quartiles is determined on a proportionate basis.

Personal Performance (25 per cent)
This element of the bonus plan is based upon the individual achievement of clearly articulated objectives created at the beginning of each year. The table below sets out a broad summary of the 2016 personal objectives for each Executive Director.

Executive Director	Personal Performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Group Values.

The personal targets are broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles. Specific granular areas for personal development within the set broad personal objectives are discussed between the Chairman and the Executive Directors and agreed by the Committee. As part of the 2016 annual performance reviews each Executive Director receives a performance rating which will determine the level of personal performance bonus pay-out for which each Executive Director will be eligible.

RESTRICTED SHARE SCHEME

Performance Conditions
For Executive Directors, 2016 RSS awards are subject to RoE and relative TSR performance conditions measured by reference to a period ending on 31 December 2018. These metrics were chosen as RoE provides a focus on the Company's underlying financial performance and cycle management, and relative TSR provides an objective reward for stock market performance against the Company's peers.

Weighting
For 2016, the TSR/RoE weighting is 25 per cent on TSR and 75 per cent on RoE.

Target ranges
The RoE target range for 2016 awards is unchanged from the previous year:

- threshold – average RoE compared to the 13-week Treasury bill rate + 6 per cent;
- maximum – average RoE compared to the 13-week Treasury bill rate + 15 per cent; and
- none of the award will vest if RoE is below threshold, 25 per cent of the award will vest at threshold, and 100 per cent of the award will vest at maximum. Performance between threshold and maximum is determined on a straight-line basis.

The Board and Committee consider that given current market conditions the stretch target represents exceptional and consistent cross-cycle out-performance above the Group's stated strategic cross-cycle return of risk free rate plus 13 per cent. The target range closely aligns the longer-term remuneration of our Executive Directors with consistent out-performance and the interests of our shareholders, but is not so stretching as to encourage excessive risk taking.

TSR target for 2016 awards:

The Group's TSR is compared against a comparator group comprising 11 peer companies as disclosed on page 85.

- 0 per cent will vest for a below median ranking;
- 25 per cent of the award will vest if Lancashire's performance is at the median;
- 100 per cent will vest for upper quartile and above performance; and
- vesting will be on a proportionate basis for performance between median and upper quartile.

Award levels
2016 RSS award levels are as follows:

- CEO – 219,254 shares (257 per cent of salary);
- CFO – 157,104 shares (268 per cent of salary);

The number of shares awarded was determined based on the share price at 1 January 2016.

Post vesting holding period
Under the management share ownership guidelines, for RSS awards made in 2016 or subsequent years, Executive Directors are expected to hold vested RSS awards (or the resultant net of tax shares) having a performance period of at least three years, for a further period of not less than two years following vesting.

SINGLE FIGURE ON REMUNERATION

The following table presents the Executive Directors' emoluments in U.S. Dollars in respect of the years ended 31 December 2015 and 31 December 2014.

Executive Directors		**Salary** **$**	**Pension** **$**	**Taxable Benefits**[1] **$**	**Annual Bonus**[6,9] **$**	**Long-Term Incentives (RSS)**[2,3, 10] **$**	**Other**[8] **$**	**Total**[4] **$**
Alex Maloney[4,5], CEO	**2015**	**770,955**	**77,096**	**19,785**	**1,466,557**	**1,377,834**	**–**	**3,712,227**
	2014	675,181	78,573	9,620	1,562,765	1,205,919	–	3,532,058
Elaine Whelan[4], CFO	**2015**	**530,224**	**55,880**	**83,220**	**1,007,036**	**1,212,022**	**–**	**2,888,382**
	2014	518,117	51,500	95,738	1,101,011	474,119	–	2,240,485
Richard Brindle[4,7], Former CEO	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2014	368,576	36,858	7,127	1,180,355	4,690,533	644,914	6,928,363

(1) Benefits comprise Bermudian payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the CFO), but exclude UK National Insurance contributions.

(2) For 2015, the long-term incentive values are based on the 2013 RSS awards which vest at 75 per cent on 18 February 2016 and are based on a three-year performance period that ended on 31 December 2015. The values are based on the share price at 31 December 2015 and include the value of dividends accrued on vested shares.

(3) For 2014, the long-term incentive values were based on the 2012 RSS awards which vested at 50 per cent on 12 February 2015 and were based on a three-year performance period that ended on 31 December 2014. The values are based on the share price at 31 December 2014 and include the value of dividends accrued on vested shares.

(4) Some amounts were paid in pounds sterling and converted at the average exchange rate of 1.5344 for the year as they are set in USD.

(5) For 2014, Alex Maloney's base salary and pension reflect his UK salary sacrifice pension contributions arrangement and are calculated at four months in his post as CUO (at an annual rate of $515,000) and eight months as CEO (at an annual rate of $750,000).

(6) For 2015, the Lancashire Group delivered solid results in a challenging market. Bonus targets were set at the beginning of 2015 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance had two components, absolute financial performance and relative financial performance weighted 60:40 respectively. The absolute component paid out at 131.25 per cent of target as the warrant adjusted RoE was 13.5 per cent against a warrant adjusted budget of 8.8 per cent and the relative component is provisionally cited at 58.3 per cent (based on an estimated 50 per cent of maximum pay-out) pending the final audited results of peer companies needed in order to calculate the final bonus payable. For the personal element of Executive Directors' bonus opportunity the pay-out will be 75 per cent of the maximum for the CEO and 75 per cent of the maximum for the CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 81 and 82. 25 per cent of Executive Director's annual bonus is deferred into the long-term incentive scheme without performance conditions, vesting at 33.33 per cent over a three-year period.

(7) Richard Brindle retired from the Group and as a Director on 30 April 2014. Mr Brindle was afforded good leaver status and all RSS award interests were agreed to vest upon his departure using estimated TSR and RoE values at the time of his retirement. The amounts in the table above reflect all awards vesting in 2014. Further particulars of the vesting appear on page 72 of the 2014 Annual Report and Accounts.

(8) For 2014, this includes all payments made to Mr Brindle in lieu of his six-month notice period and converted at the exchange rate of 1.6885 as at 30 April 2014. Further particulars of the vesting appear on page 72 of the 2014 Annual Report.

(9) Annual bonus figures for Alex Maloney and Elaine Whelan for 2014 have been restated to reflect final relative performance data which was used to calculate the bonus figures and were finalised after all peer data was released in 2015, after the 2014 Directors' Remuneration Report was published for circulation. For 2014, the relative component had been provisionally stated to pay out at 0 per cent, however after final results of all peers were released, this element paid out at 141.80 per cent of target (being 70.9 per cent of the maximum).

(10) For Elaine Whelan, the increased value of Performance RSS awards noted for 2015 compared to that of 2014 is a result of vesting of the 2013 Performance RSS awards which were awarded following Elaine Whelan's promotion.

NON-EXECUTIVE DIRECTORS' FEES

Current Non-Executive Directors		Fee $	Other $	Total $
Peter Clarke[1]	**2015**	**175,000**	**–**	**175,000**
	2014	98,077	–	98,077
Emma Duncan	**2015**	**175,000**	**–**	**175,000**
	2014	175,000	–	175,000
Simon Fraser	**2015**	**175,000**	**–**	**175,000**
	2014	175,000	–	175,000
Samantha Hoe-Richardson	**2015**	**175,000**	**–**	**175,000**
	2014	175,000	–	175,000
Tom Milligan[2]	**2015**	**158,958**	**–**	**158,958**
	2014	–	–	–
Martin Thomas	**2015**	**325,000**	**100,000**	**425,000**
	2014	325,000	100,000	425,000

Former Non-Executive Directors		Fee $	Other $	Total $
John Bishop[3]	**2015**	**–**	**–**	**–**
	2014	58,333	–	58,333
Neil McConachie[3]	**2015**	**–**	**–**	**–**
	2014	58,333	–	58,333
Ralf Oelssner[3]	**2015**	**–**	**–**	**–**
	2014	58,333	10,000	68,333
Robert Spass[4]	**2015**	**–**	**–**	**–**
	2014	175,000	–	175,000
William Spiegel[4]	**2015**	**–**	**–**	**–**
	2014	175,000	–	175,000

(1) Peter Clarke was appointed as a Non-Executive Director with effect from 9 June 2014.

(2) Tom Milligan was appointed as Non-Executive Director with effect from 3 February 2015.

(3) John Bishop, Neil McConachie, and Ralf Oelssner retired from the Board on 30 April 2014.

(4) Robert Spass and William Spiegel retired from the Board on 31 December 2014.

2016 ANNUAL BONUS PAYMENTS IN RESPECT OF 2015 PERFORMANCE

As detailed in the Policy Report, each Executive Director participates in the annual bonus plan, under which performance is measured over a single financial year.

The target value of bonus was 150 per cent of salary for the CEO and CFO respectively, and the maximum payable was two times the target value. The warrant adjusted RoE is 13.5 per cent, which reflects the total impact of warrants of 2.6 per cent on the actual 2015 RoE of 10.9 per cent. In setting the annual bonus RoE targets for 2015 the Committee agreed that the effect of warrant exercises and dividend equivalent payments should be excluded for annual bonus purposes due to the large number of warrants expiring in 2015 and potential volatile impact on the annual bonus performance metrics.

FINANCIAL PERFORMANCE

75 per cent of the 2015 bonus was based on Company performance conditions and the extent to which they were achieved is as follows:

Performance Measures	Weighting (of total Company element of 75%) %	Threshold %	Target %	Max %	Actual performance %	% payout
Absolute RoE	60	9	11	19	13.5	131.3 of Target
Relative RoE	40	50	N/A	75	58.3	100.0 of Target
Total	100 (75 per cent of Total Bonus)					118.8 of Target payable in respect of Company performance

For 2015, the Lancashire Group delivered solid results in a challenging market. The absolute component paid out at 131.3 per cent of target as the warrant adjusted RoE was 13.5 per cent against a warrant adjusted target of 8.8 per cent and the relative component against the results of peer companies is provisionally stated at median performance (100 per cent pay-out of target, and 50 per cent of the maximum) pending the final audited results of peer companies needed in order to calculate the final bonus payable. Any changes to the bonus numbers reported will be restated in the 2016 Directors' Remuneration Report as final numbers.

PERSONAL PERFORMANCE

25 per cent of the 2015 bonus was based on performance against clearly defined personal objectives set at the start of the year.

The table below sets out a summary of the 2015 personal objectives for each Executive Director.

Executive Director	Personal Performance
Alex Maloney	Effective leadership and management of the senior executive team and Group. Development of the general business strategy. Contribution aligned to the Lancashire Values.
Elaine Whelan	Effective leadership and management of the finance function and the Bermuda office. Development of the general business strategy. Contribution aligned to the Lancashire Values.

The personal targets were broadly common among the Executive Directors, with variances being attributable to the specifics of their respective roles and the perceived need for areas of personal development within their fields of expertise to be emphasised.

During the 2015 annual performance reviews of each Executive Director, a performance rating was assigned to determine the level of bonus pay-out for which each Executive Director was eligible.

As expected for a solid performance year in a challenging market, the Executive Directors each achieved a strong performance rating against their objectives. For the 2015 performance against personal objectives the following ratings were determined, expressed as a percentage of the maximum award for personal performance: CEO – 75 per cent, and CFO – 75 per cent.

A table of performance measures and total 2015 bonus achievement is set out below:

Executive Director	Financial performance (max % of total bonus) %	Personal performance (max % of total bonus) %	Bonus % of maximum awarded %	Total[1] bonus value $	Value of bonus paid in cash (75 per cent of total bonus) $	Value of bonus deferred into RSS (25 per cent of total bonus)[2] $
Alex Maloney	75	25	63	1,466,557	1,099,917	366,640
Elaine Whelan	75	25	63	1,007,036	755,277	251,759

(1) For 2015 the Group delivered solid results in a challenging market. Bonus targets were set at the beginning of 2015 and based on a clear split between Company financial performance and personal performance on a 75:25 basis. Company financial performance had two components, absolute financial performance and relative financial performance weighted 60:40 respectively. The absolute component paid out at 131.25 per cent of target as the warrant adjusted RoE was 13.5 per cent against a warrant adjusted budget of 8.8 per cent and the relative component is provisionally cited at 58.3 per cent (based on an estimated median payout calculation) pending the final audited results of peer companies needed in order to calculate the final bonus payable. For the personal element of Executive Directors' bonus opportunity the pay-out will be 75 per cent of the maximum for the CEO and 75 per cent of the maximum for the CFO. For full details of Executive Directors' bonuses and the associated performance delivered see pages 81 and 82.

(2) 25 per cent of total bonus award will be deferred into LHL shares with one third vesting annually, each year, over a three-year period with the first third becoming exercisable in February 2017, subject to the Company being in an 'open period'. These awards vest on the relevant dates subject to continued employment only.

LONG-TERM SHARE AWARDS WITH PERFORMANCE PERIODS ENDING IN THE YEAR – 2013 RSS AWARD

The 2013 RSS awards are based on a three-year performance period ending on 31 December 2015 and vest following the determination of financial results by the Board. The tables below set out the achievement against the performance conditions attached to the award, resulting in aggregate vesting of 75 per cent, and the actual number of awards vesting (with their estimated value).

	TSR (relative to a comparator group of 11 companies) (relevant to 25% of the 2013 RSS awards)		Average annual RoE (over three years in excess of 13-week Treasury Bill Rate) (relevant to 75% of the 2013 RSS awards)	
Performance level	**Performance required**	**% vesting**	**Performance required (%)**	**% vesting**
Below threshold	Below median	0	Below 6	0
Threshold	Median	25	6	25
Stretch or above	Upper quartile or above	100	15 or above	100
Actual achieved	Below median	0	15.7	100

Details of the performance RSS awards granted on 28 February 2013 with a performance period of 1 January 2013 – 31 December 2015 vesting for each Executive Director, based on the above vesting, are shown in the table below:

Executive[3]	Number of shares at grant	Number of shares to lapse	Number of shares to vest	Dividend accrual on vested shares value[2] $	Value of shares including dividend accrual[1] $
Alex Maloney	131,969	32,993	98,976	456,302	1,377,834
Elaine Whelan	116,087	29,022	87,065	401,389	1,212,022

(1) The value of the vested shares is based on the 2013 RSS awards which vest at 75 per cent on 18 February 2016 and are based on a three-year performance period that ended on 31 December 2015. The values are based on the share price at 31 December 2015 (being $9.31 based on the exchange rate of 1.4826). The vested awards are subject to the claw back provision set out on page 75.

(2) Dividends accrue on awards at the date of a dividend payment and upon exercise the cash value of the accrued dividends is paid to the employee on the number of vested awards.

(3) Details of the former CEO's award can be found in the Loss of Office Payments section on page 72 of the 2014 Annual Report and Accounts.

SCHEME INTERESTS AWARDED DURING THE YEAR

The table below sets out the performance RSS share awards that were granted as nil-cost options on 12 February 2015.

Executive	Grant date[2]	Number of awards granted during the year	Face value of awards granted during the year[1,3] $	% vesting at threshold performance
Alex Maloney	12-Feb-2015	244,208	2,388,354	25
Elaine Whelan	12-Feb-2015	168,149	1,644,497	25

(1) The share price on the date of performance awards grant was $9.78, when the RSS share awards were granted as nil-cost options. The awards were based on the share price as at 31 December 2014 (being $8.69, based on the exchange rate of 1.5534).

(2) These awards are due to vest subject to performance conditions being met at the end of the performance period ending 31 December 2017 and becoming exercisable after the meeting of the Board in February 2018.

(3) The exercise share price is determined once an award has vested on the basis of the share price on the date an award is exercised.

LOSS OF OFFICE PAYMENTS

There were no loss of office payments during the 2015 year.

DETAILS OF ALL OUTSTANDING SHARE AWARDS

In addition to awards made during the 2015 financial year, the table below sets out details of all outstanding RSS awards held by Executive Directors.

PERFORMANCE AND DEFERRED BONUS AWARDS UNDER THE NIL-COST OPTION RESTRICTED SHARE SCHEME (RSS)

		Grant date[1]	Exercise price	Awards held at 1-Jan-15	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards exercised during the year	Awards held at 31-Dec-15	End of performance period
Alex Maloney, Group CEO	Performance RSS[2,3]	28-Feb-12	–	187,165	**–**	**93,583**	**93,582**	**93,583**	**–**	31-Dec-14
	Deferred Bonus RSS[4]	5-Mar-12	–	4,485	**–**	**4,485**	**–**	**4,485**	**–**	
	Performance RSS[2,3]	28-Feb-13	–	131,969	**–**	**–**	**–**	**–**	**131,969**	31-Dec-15
	Deferred Bonus RSS[4]	5-Mar-13	–	11,695	**–**	**5,847**	**–**	**5,847**	**5,848**	
	Performance RSS[2,3]	19-Feb-14	–	124,333	**–**	**–**	**–**	**–**	**124,333**	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	29,430	**–**	**9,810**	**–**	**9,810**	**19,620**	
	Performance RSS[2,3]	12-Feb-15	–	–	**244,208**	**–**	**–**	**–**	**244,208**	31-Dec-17
	Deferred Bonus RSS[4]	20-Mar-15	–	–	**41,929**	**–**	**–**	**–**	**41,929**	
Total				**489,077**	**286,137**	**113,725**	**93,582**	**113,725**	**567,907**	
Elaine Whelan, Group CFO & LICL CEO	Performance RSS[2,3]	28-Feb-12	–	48,586	**–**	**24,293**	**24,293**	**24,293**	**–**	31-Dec-14
	Deferred Bonus RSS[4]	5-Mar-12	–	5,159	**–**	**5,159**	**–**	**5,159**	**–**	
	Performance RSS – Interim[2,3]	4-May-12	–	25,000	**–**	**12,500**	**12,500**	**12,500**	**–**	31-Dec-14
	Performance RSS[2,3]	28-Feb-13	–	116,087	**–**	**–**	**–**	**–**	**116,087**	31-Dec-15
	Deferred Bonus RSS[4]	5-Mar-13	–	10,080	**–**	**5,040**	**–**	**5,040**	**5,040**	
	Performance RSS[2,3]	19-Feb-14	–	102,989	**–**	**–**	**–**	**–**	**102,989**	31-Dec-16
	Deferred Bonus RSS[4]	5-Mar-14	–	23,956	**–**	**7,985**	**–**	**7,985**	**15,971**	
	Performance RSS[2,3]	12-Feb-15	–	–	**168,149**	**–**	**–**	**–**	**168,149**	31-Dec-17
	Deferred Bonus RSS[4]	20-Mar-15	–	–	**29,540**	**–**	**–**	**–**	**29,540**	
Total				**331,857**	**197,689**	**54,977**	**36,793**	**54,977**	**437,776**	

(1) The market values of the common shares on the dates of grant were:

- 28 February 2012 £7.90
- 5 March 2012 £7.58
- 4 May 2012 £7.99
- 28 February 2013 £9.09
- 5 March 2013 £9.08
- 19 February 2014 £7.34
- 5 March 2014 £7.26
- 12 February 2015 £6.36
- 20 March 2015 £6.30

(2) The vesting of the RSS performance awards prior to 2013 grants is subject to two performance conditions as follows:

- Half of each award is subject to a performance condition measuring the TSR performance of the Company against the TSR performance of a select group of comparator companies (see page 85 for a list of comparator companies for each grant year), over a three-year performance period. 25 per cent of this half of the award vests for median performance by the Company, rising to 100 per cent vesting of this half of the award for upper quartile performance by the Company or better (with proportionate vesting between these two points).
- The other half of each award is subject to a performance condition based on average annual RoE over a three-year performance period. 25 per cent of this half of the award will vest if average annual RoE over the performance period exceeds the criteria set out in the table on page 85, whilst all of this part of the award will vest if the Company's average RoE is equal to the more stringent criteria set out in the table on page 85. Between these two points vesting will take place on a straight-line basis from 25 per cent to 100 per cent for RoE performance.

  The vesting of the RSS performance awards from 2013 grants forward is subject to two performance conditions as follows:
- 25 per cent of each award is subject to a performance condition measuring the TSR performance of the Company against the TSR performance of a select group of comparator companies (see page 85 for a list of comparator companies for each grant year), over a three-year performance period. 25 per cent of this part of the award vests for median performance by the Company, rising to 100 per cent vesting of this part of the award for upper quartile performance by the Company or better (with proportionate vesting between these two points).
- The other 75 per cent of each award is subject to a performance condition based on average annual RoE over a three-year performance period. 25 per cent of this part of the award will vest if average annual RoE over the performance period exceeds the criteria set out in the table on page 85, whilst all of this part of the award will vest if the Company's average RoE is equal to the more stringent criteria set out in the table on page 85. Between these two points vesting will take place on a straight-line basis from 25 per cent to 100 per cent for RoE performance.

(3) The vesting dates of the RSS performance awards are subject to being out of a close period and are as follows:

- 2012 – 12 February 2015;
- 2013 – 18 February 2016;
- 2014 – first open period following the release of the Company's 2016 year-end results.
- 2015 – first open period following the release of the Company's 2017 year-end results.

(4) The vesting dates of the RSS Deferred Bonus awards are subject to being out of a close period and, for the 2012 to 2015 Deferred Bonus awards, are as follows:

- 2012 – vested 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2012, 2013 and 2014;
- 2013 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2013, 2014 and 2015;
- 2014 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2014, 2015 and 2016; and
- 2015 – vest 33.33 per cent over a three-year period at the first open period following the release of the Company's year-end results for 2015, 2016 and 2017.

TSR TARGETS FOR RSS

	2012	2013*	2014*	2015*	2016*
100%	75th percentile	75th percentile	75th percentile	75th percentile	75th percentile
25%	= median	= median	= median	= median	= median
Nil	< median	< median	< median	< median	< median

ROE TARGETS FOR RSS

	2012	2013*	2014*	2015*	2016*
100%	13 week Tr + 15%	13 week Tr + 15%	13 week Tr +15%	13 week Tr +15%	13 week Tr +15%
25%	13 week Tr + 6%	13 week Tr + 6%	13 week Tr + 6%	13 week Tr + 6%	13 week Tr + 6%
Nil	<13 week Tr + 6%	<13 week Tr + 6%	<13 week Tr + 6%	<13 week Tr + 6%	<13 week Tr + 6%

* From 2013 onwards the split of targets has changed from 50 per cent RoE / 50 per cent TSR to 75 per cent RoE and 25 per cent TSR.

Peer Companies	2012 awards	2013 awards	2014 awards	2015 awards	2016 awards
Amlin plc[1]	X	X	X	X	–
Argo Group International Holdings, Ltd.	X	X	X	X	X
Aspen Insurance Holdings Limited	X	X	X	X	X
Axis Capital Holdings Limited	X	X	X	X	X
Beazley plc	X	X	X	X	X
Catlin Group Ltd.[2]	X	X	X	–	–
Endurance Specialty Holdings Ltd.[3]	X	X	X	X	X
Everest Re Group, Ltd.[4]	–	–	–	X	X
Flagstone Reinsurance Holdings Limited[5]	X	–	–	–	–
Hannover Re[6]	–	–	–	X	X
Hiscox Ltd.	X	X	X	X	X
Montpelier Re Holdings Ltd.[3]	X	X	X	–	–
Novae Group plc[7]	–	–	–	X	X
Renaissance Re Holdings Ltd.	X	X	X	X	X
Validus Holdings Ltd.	X	X	X	X	X

(1) Mitsui Sumitomo Insurance Company announced on 8 September 2015 that it intended to acquire Amlin plc. The transaction completed on 1 February 2016. Accordingly, the Committee decided to use Amlin plc as a comparator company up to 30 June 2015.

(2) Catlin Group Ltd. was acquired by the XL Group with effect from 1 May 2015 and so was used as a comparator company up to 31 December 2014.

(3) Montpelier Re Holdings Ltd. was acquired by Endurance with effect from 31 July 2015 and so was used as a comparator company up to 31 December 2014.

(4) Everest Re Group, Ltd. was added to the peer group of companies with effect from 1 July 2015 as a replacement for Amlin plc.

(5) Flagstone Reinsurance Holdings Limited was acquired by Validus with effect from 30 November 2012 and so was used as a comparator company for 2012 up to 30 September 2012.

(6) Hannover Re was added to the peer group of companies with effect from 1 January 2015 as a replacement for Montpelier Re Holdings Ltd.

(7) Novae Group plc was added to the peer group of companies with effect from 1 January 2015 as a replacement for Catlin Group Ltd.

DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS

A policy for formal shareholding guidelines was introduced in 2012. This requires the CEO to build and maintain a shareholding in the Company worth two times annual salary and for the CFO to build and maintain a shareholding of one times annual salary as set out in the Policy Report.

Details of the Directors' interests in shares are shown in the table below.

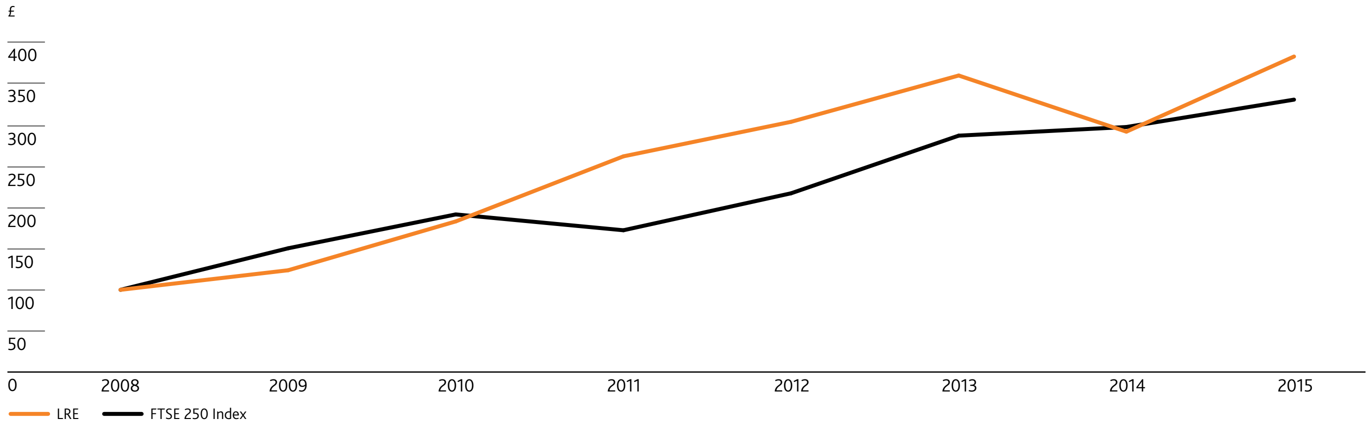
	Number of Ordinary Shares						
	At 1 January 2015	At 31 December 2015					
Director	Legally owned	**Legally owned**	**Subject to deferral under the RSS**	**Subject to performance conditions under the RSS**	**Vested but unexercised awards under other share based plans**	**Total**	**Shareholding guideline achieved?**
Alex Maloney	321,841	**382,008**	**67,397**	**500,510**	**–**	**949,915**	**Yes**
Elaine Whelan	233,820	**287,169**	**50,551**	**387,225**	**–**	**724,945**	**Yes**
Peter Clarke	–	**–**	**N/A**	**N/A**	**N/A**	**–**	**N/A**
Emma Duncan	–	**–**	**N/A**	**N/A**	**N/A**	**–**	**N/A**
Simon Fraser	–	**1,000**	**N/A**	**N/A**	**N/A**	**1,000**	**N/A**
Samantha Hoe-Richardson	3,947	**3,947**	**N/A**	**N/A**	**N/A**	**3,947**	**N/A**
Tom Milligan	N/A	**1,000**	**N/A**	**N/A**	**N/A**	**1,000**	**N/A**
Martin Thomas	6,950	**6,950**	**N/A**	**N/A**	**N/A**	**6,950**	**N/A**

Note: For the purpose of the shareholding guideline, legally owned shares are counted together with the net of tax value of deferred bonus and vested (but unexercised) long-term incentive awards.

PERFORMANCE GRAPH

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index. The Company's common shares commenced trading on the main market of the LSE on 16 March 2009 and the Company joined the FTSE 250 Index on 22 June 2009 and is currently a constituent of this.

TOTAL SHAREHOLDER RETURN



Source: Thomson Reuters

This graph shows the value, by 31 December 2015, of £100 invested in LHL on 31 December 2008 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year-ends.

TOTAL REMUNERATION HISTORY FOR CEO

The table below sets out the total single figure remuneration for the CEOs over the last seven years with the annual bonus paid as a percentage of the maximum and the percentage of long-term share awards vesting in each year.

	2009	2010	2011	2012	2013	Richard Brindle 2014[1]	Alex Maloney 2014[2]	**2015**
Total remuneration ($000s)	7,244	9,945	9,623	10,460	10,175	10,072[5]	2,405[4]	**3,712**
Annual bonus (%)	68	94	73	73	80	80	73[4]	**63**
LTI vesting (%)	N/A	99.57	100	99	100	61[3]	50	**75**

(1) Richard Brindle was the CEO from 2005 until he retired from the Group and as a Director on 30 April 2014.

(2) Alex Maloney was appointed CEO effective 1 May 2014, after the retirement of Mr Brindle. For the purposes of this table his numbers have been pro-rated to account for only his time in office as CEO for 2014.

(3) Mr Brindle was afforded good leaver status and all RSS award interests were vested upon his departure, using estimated TSR and RoE values at the time of his retirement. The amounts in the table above reflect all awards which vested in 2014. Further particulars of the vesting were reported in the Company's 2014 Annual Report.

(4) Alex Maloney's 2014 total remuneration and annual bonus have been restated in the above table to reflect changes made after the publication of the 2014 Annual Report. These changes are primarily due to the disclosed relative RoE performance which impacted his annual bonus figure for 2014, as disclosed on page 80.

(5) Richard Brindle's total remuneration figure has also been restated in the above table to reflect changes made after the publication of the 2014 Annual Report; this change is primarily due to including Mr Brindle's payment in lieu of six month's notice which had not been included in 2014.

The table above shows the total remuneration figure for the former CEO during each of the relevant financial years; the current CEO is reflected since his appointment to the position on 1 May 2014. The total remuneration figure includes the annual bonus and LTI awards which vested based on performance in those years. The annual bonus and LTI percentages show the pay-out for each year as a percentage of the maximum.

PERCENTAGE CHANGE IN CEO REMUNERATION

The following table sets out the percentage change in the aggregate value of salary, benefits and bonus for the Chief Executive from the preceding year and the average percentage change in respect of the employees of the Company taken as a whole.

	Year on year change CEO[2,3] %	**Average year on year change employees[1] %**
Base salary	-11	5
Benefits	-6	8
Bonus	-34	13

(1) Employee numbers were calculated on a per headcount basis as at 31 December 2015 and 31 December 2014, inclusive of the CEO.

(2) A blended CEO rate was used for 2014 to account for CEO changes through the year.

(3) Some amounts were paid in pounds sterling and converted at the average exchange rate of 1.5344 for the year.

RELATIVE IMPORTANCE OF THE SPEND ON PAY

The following table sets out the percentage change in dividends and overall spend on pay in the year ended 31 December 2015 compared to the year ended 31 December 2014.

	2015 $m	2014 $m	Percentage change %
Employee remuneration costs	**80.1**	77.4	3
Dividends	**317.5**	321.0	-1

COMMITTEE MEMBERS, ATTENDEES AND ADVICE

The Remuneration Committee comprised the following members during the year and to the date of this Report (all of whom are independent Non-Executive Directors):

Remuneration Committee Members	Position	Comments
Simon Fraser	LHL Remuneration Committee Chairman	Independent; Attended 8 of a potential maximum meetings of 8 in 2015
Peter Clarke	Member from 4 November 2014	Independent; Attended 8 of a potential maximum meetings of 8 in 2015
Emma Duncan	Member from 5 November 2010	Independent; Attended 7 of a potential maximum meetings of 8 in 2015

The Remuneration Committee's responsibilities are contained in its Terms of Reference, a copy of which is available on the Company's website. These responsibilities include determining the framework for the remuneration, including pension arrangements, for all Executive Directors, the Chairman and senior executives. The Committee is also responsible for approving employment contracts for senior executives.

REMUNERATION COMMITTEE ADVISER

The Remuneration Committee is advised by NBS, a trading name of Aon Hewitt, being a subsidiary of Aon plc. NBS was appointed by the Remuneration Committee in 2007. NBS has discussions with the Remuneration Committee Chairman regularly on Committee process and topics, which are of particular relevance to the Company.

Aon Benfield (which is part of Aon but is a separate business division to Aon Hewitt) provides reinsurance broking services to the Group.

The primary role of NBS is to provide independent and objective advice and support to the Committee's Chairman and members. In order to manage any possible conflict of interest, NBS operates as a distinct business within the Aon Group and there is a robust separation between the business activities and management of NBS and all other parts of Aon Hewitt and the wider Aon Group. The Committee is satisfied that the advice that it receives is objective and independent. NBS is also a signatory to the Remuneration Consultants Group ('RCG') Code of Conduct which sets out guidelines for managing conflicts of interest, and has confirmed to the Committee its compliance with the RCG Code.

The total fees paid to NBS in respect of its services to the Committee for the year ended 31 December 2015 were $132,330 (2014 – $160,691). Fees are predominantly charged on a 'time spent' basis.

ENGAGEMENT WITH SHAREHOLDERS

Details of votes cast for and against the resolution to approve last year's Remuneration Report are shown below and any matters discussed with shareholders during the year are provided in the Implementation of Remuneration Policy for 2016 section of the report starting on page 78.

	Vote to approve 2014 Annual Report on Remuneration	
	Total number of votes	% of votes cast
For	92,692,097	70.3
Against	39,185,080	29.7
Total	131,877,177	100.0
Abstentions	8,472,313	

The Board made a public announcement on 30 April 2015, which included the following statement:

"The Board has noted the level of abstentions and the significant number of votes against the remuneration report at the AGM. Resolution 2 received 70.28 per cent of votes for and 29.71 per cent of votes against the resolution, with 8,472,313 of shares abstaining. Lancashire consulted with its major shareholders particularly on the topic of its remuneration policy and practice in advance of the 2015 AGM. The Board understands that the principal concern of shareholders was in relation to the exercise by the Board of discretion when settling the retirement remuneration package for Richard Brindle. The Board considered that the retirement arrangements for Richard Brindle were an appropriate reward for Mr Brindle's unique contribution to Lancashire as a founder and chief executive and were also appropriate to secure an orderly and successful transition. These were necessarily unique circumstances and we will continue to engage with shareholders."

Approved by the Board of Directors and signed on behalf of the Board

Simon Fraser
LHL Remuneration Committee Chairman

17 February 2016

OVERVIEW OF THE GROUP

Lancashire Holdings Limited (the Company) is a Bermuda incorporated company (Registered Company No. 37415) with operating subsidiaries in Bermuda and London, and two Syndicates at Lloyd's.

The Company's common shares were admitted to trading on AIM in December 2005 and were subsequently moved up to the Official List and to trading on the main market of the LSE on 16 March 2009. The shares have been included in the FTSE 250 Index since 22 June 2009.

PRINCIPAL ACTIVITIES

The Company's principal activity, through its wholly owned subsidiaries, is the provision of global specialty insurance and reinsurance products. On 7 November 2013, the Company completed the acquisition of CCL, an established Lloyd's insurer, and in July 2013 established Kinesis, a third-party capital and underwriting management facility, to complement the Group's longstanding specialty insurance activities. An analysis of the Group's business performance can be found in the Business review on pages 30 to 38.

DIVIDENDS

For the year ended 31 December 2015, the following dividends were declared:

- an interim dividend of $0.05 per common share and warrant was declared on 28 July 2015 and paid on 25 September 2015 in pounds sterling at the pound/U.S. dollar exchange rate of 1.5388 or £0.0325 per common share and warrant;
- a special dividend of $0.95 per common share and warrant was declared on 4 November 2015 and paid on 18 December 2015 in pounds sterling at the pound/U.S. dollar exchange rate of 1.5049 or £0.6313 per common share and warrant; and
- a final dividend of $0.10 per common share was declared on 17 February 2016 to be paid on 23 March 2016 in pounds sterling at the pound/U.S. dollar exchange rate on the record date of 26 February 2016 or approximately £0.07 per common share.

DIVIDEND POLICY

The Group intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual (interim and final) dividend, supplemented by special dividends from time to time. Dividends will be linked to past performance and future prospects.

Under most scenarios, the annual dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing. The Board may cancel the payment of any dividend between declaration and payment for purposes of compliance with regulatory requirements or for exceptional business reasons.

DIRECTORS

- Peter Clarke (Non-Executive Director)
- Emma Duncan (Non-Executive Director)
- Simon Fraser (Senior Independent Non-Executive Director)
- Samantha Hoe-Richardson (Non-Executive Director)
- Alex Maloney (Chief Executive Officer)
- Tom Milligan (Non-Executive Director) (appointed effective 3 February 2015)
- Martin Thomas (Non-Executive Chairman)
- Elaine Whelan (Chief Financial Officer)

DIRECTORS' INTERESTS

The Directors' beneficial interests in the Company's common shares as at 31 December 2015 and 2014 including interests held by family members were as follows:

Director	**Common shares held as at 31 December 2015**	Common shares held as at 31 December 2014
Peter Clarke	**–**	–
Emma Duncan	**–**	–
Simon Fraser[1]	**1,000**	–
Samantha Hoe-Richardson	**3,947**	3,947
Alex Maloney[2]	**382,008**	321,841
Tom Milligan[3]	**1,000**	–
Martin Thomas	**6,950**	6,950
Elaine Whelan[4]	**287,169**	233,820

There have been no changes in Directors' shareholdings between the end of the financial year and the date of this Report.

(1) Simon Fraser conducted the following transactions in the Company's shares during 2015:

- 5 May – purchase of 1,000 shares at a price of £6.25 costing £6,246.

(2) Includes 100,000 shares owned by his spouse, Amanda Maloney. Alex Maloney conducted the following transactions in the Company's shares during 2015:

- 25 March – exercise of 93,583 RSS awards and 20,142 deferred bonus RSS awards and related sale of 53,558 shares to cover tax liabilities, at a price of £6.30 realising £337,205.

(3) Tom Milligan conducted the following transactions in the Company's shares during 2015:

- 25 June – purchase of 1,000 shares at a price of £6.21 costing £6,205.

(4) Includes 2,600 shares owned by her spouse, Kilian Whelan. Elaine Whelan conducted the following transactions in the Company's shares during 2015:

- 9 September – exercise of 36,793 RSS awards and 18,184 deferred bonus RSS awards and related sale of 1,628 shares to cover tax liabilities, at a price of £6.89 realising £11,217.

TRANSACTION IN OWN SHARES

The Company did not repurchase any of its own common shares during 2015.

The Company repurchased 2,498,433 of its own common shares from 8 September 2014 through 20 November 2014 for a total consideration of approximately $25.0 million. These repurchases were made pursuant to resolutions of the shareholders passed at the AGM held on 30 April 2014 granting authority for the repurchase of up to 18,544,580 shares. All of the repurchased shares were initially held in treasury.

The Group's current repurchase programme has 20,034,191 common shares remaining to be purchased as at 31 December 2015 (approximately $186.5 million at the 31 December 2015 share price). The purpose of the Company's repurchase programme is to acquire shares to use in the future towards satisfying its obligations under its RSS awards. Further details of the share repurchase authority and programme are set out in note 23 to the consolidated financial statements on page 164. The repurchase programme is subject to renewal at the 2016 AGM in an amount of up to 10 per cent of the then issued common share capital.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 71 to 88.

SUBSTANTIAL SHAREHOLDERS

As at 17 February 2016, the Company was aware of the following interests of 3 per cent or more in the Company's issued share capital:

Name	**Number of shares as at 17 February 2016**	**% of shares in issue**
Invesco Limited	39,968,928	20.0
Woodford Investment Management LLP	21,595,170	10.8
Setanta Asset Management Limited	14,613,832	7.3
Vidacos Nominees Ltd	10,342,300	5.2
Legal & General Group Plc	9,739,779	4.9
BlackRock, Inc.	8,976,004	4.5
Franklin Mutual Advisers, LLC	7,856,956	3.9

CORPORATE GOVERNANCE – COMPLIANCE STATEMENT

The Company's compliance with the Code is summarised in the Corporate Governance section of this Report on pages 59 to 61.

The Company confirms, in accordance with the principle of 'comply or explain', that there are no areas of material non-compliance with the Code.

DONATIONS

During 2015 the Company facilitated a donation of $2.5 million to the Lancashire Foundation from a third party. In view of this substantial donation, the Company decided not to make any further donation to the Foundation during 2015. The Foundation held warrants in the Company, which were exercised in May 2015, and the dividend equivalent payments received on the warrants, which had been an important income stream for the Foundation, will be taken into account when considering the appropriate level of donations to be made by the Company in the future. The Foundation now owns 330,713 common shares in the Company and will receive any dividends declared on those shares.

In November 2013, the Board of Directors approved a cash donation of $2.0 million to the Lancashire Foundation, payable in respect of 2014.

Lancashire established the Lancashire Foundation as a Bermuda charitable trust in 2007, with the aim of creating a trust for the benefit of charitable causes in Bermuda, the UK and worldwide. During 2012, the assets of the Lancashire Foundation were transferred to the Lancashire Foundation charitable trust established in England and Wales and registered with the Charity Commission. The Lancashire Foundation's trustees are two senior employees, a subsidiary Non-Executive Director and the Group Chairman. The Trustees make donations following recommendations made by the Company's Donations Committee consisting of the Group's employees.

A summary of the work of the Lancashire Foundation during 2015 can be found in the Corporate Responsibility section on pages 44 to 49.

The Group did not make any political donations or expenditure during 2015 or 2014.

HEALTH AND SAFETY

The Group considers the health and safety of its employees to be a management responsibility equal to that of any other function.

The Group operates in compliance with health and safety legislative requirements in Bermuda and the UK.

GREENHOUSE GAS EMISSIONS

The Group's greenhouse gas emissions are detailed in the Corporate Responsibility section on page 47.

EMPLOYEES

The Group is an equal opportunity employer, and does not tolerate unfair discrimination of any kind in any area of employment or corporate life. The Group believes that education and training for employees is a continuous process and employees are encouraged to discuss training needs with their managers. The Group's health and safety, equal opportunities, training and other policies are available to all employees in the staff handbook which is available on the Group's intranet.

CREDITOR PAYMENT POLICY

The Group aims to pay all creditors promptly and in accordance with contractual and legal obligations.

FINANCIAL INSTRUMENTS AND RISK EXPOSURES

Information regarding the Group's risk exposures is included in the risk disclosures section on pages 112 to 138 of the consolidated financial statements. The Group's use of derivative financial instruments can be found on pages 127 to 130.

ACCOUNTING STANDARDS

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Board determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

ANNUAL GENERAL MEETING

The notice of the 2016 AGM, to be held on 4 May 2016 at the Company's head office, 29th Floor, 20 Fenchurch Street, London EC3M 3BY, UK, is contained in a separate circular to shareholders which is made available to shareholders at the same time as this Annual Report and Accounts. The notice of the AGM is also available on the Company's website.

ELECTRONIC AND WEB COMMUNICATIONS

Provisions of the Bermuda Companies Act 1981 enable companies to communicate with shareholders by electronic and/or website communications. The Company will notify shareholders (either in writing or by other permitted means) when a relevant document or other information is placed on the website and a shareholder may request a hard copy version of the document or information.

GOING CONCERN AND VIABILITY STATEMENT

The Business Review section on pages 30 to 38 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 42 to 43. Starting on page 112, the risk disclosures section of the consolidated financial statements sets out the principal risks to which the Group is exposed, including insurance, market, liquidity, credit, operational and strategic, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks. The Board considers annually and on a rolling basis a three-year strategic plan for the business which the Company progressively implements. A three-year plan period aligns to the short-tail nature of the Group's liabilities and the agility in the business model, allowing the Group to adapt capital and solvency quickly in response to market cycles, events and opportunities. This is consistent with the outlook period in the Group's ORSA. The three-year strategic plan was last approved by the Board on 29 April 2015. The Board receives quarterly reports from the CRO and sets and approves risk tolerances for the business.

During 2015, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As part of this assessment the business plan was stressed for a number of scenarios and the impact on capital (on both an IFRS and Solvency II basis) evaluated. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2017, being the period considered under the Group's current three-year strategic plan.

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2017. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the Annual Report and Accounts.

AUDITORS

Resolutions will be proposed at the Company's 2016 AGM to re-appoint EY as the Company's auditors and to authorise the Directors to set the auditors' remuneration. Ernst & Young have served as the Company's auditors since 2005.

The Company plans to carry out an audit tender process during 2016 and to recommend an auditor to the shareholders to vote on at the 2017 AGM.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board.

Christopher Head
Company Secretary

17 February 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts and the Group's consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The consolidated financial statements have been prepared in accordance with IFRS. Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, U.S. GAAP is considered. Further detail on the basis of preparation is described in the consolidated financial statements. In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements;
- provide additional disclosures where compliance with the specific requirements of IFRS are considered to be insufficient to enable users to understand the impact of particular transactions, events and conditions on the financial position and performance; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the consolidated financial statements comply with applicable laws and regulations. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

1. the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
2. the Board considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
3. the Strategy and the Business review include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

Legislation in Bermuda governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions. In addition, the rights of shareholders under Bermuda law may differ from those for shareholders of companies incorporated in other jurisdictions.

By order of the Board

17 February 2016

Traction
in the marketplace

We know how difficult it is to gain a foothold in the marketplace and we know the importance of getting stuck in and digging deep to ensure our performance doesn't slip.

FINANCIAL STATEMENTS

OUR OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

WHAT WE HAVE AUDITED

LHL's financial statements comprise:

- the consolidated balance sheet as at 31 December 2015;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the statement of consolidated cash flows for the year then ended; and
- the accounting policies, the risk disclosures, and the related notes to the accounts 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with our engagement letter dated 7 August 2015. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	• Valuation of loss reserves • Goodwill and intangible assets • Revenue recognition – premium estimates
Audit scope	• We performed an audit of the complete financial information of 4 components • The components where we performed full or specific audit procedures accounted for 100 per cent of profit before tax, 100 per cent of gross premiums written and 100 per cent of insurance contract liabilities
Materiality	Overall Group materiality of $8.6 million, which represents 5 per cent of profit before tax

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT AND RESPONSE TO THOSE RISKS

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. These risks are consistent with those identified during the 2014 audit. In addressing these risks, we have performed the procedures below which were designed in the context of the consolidated financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

VALUATION OF LOSS RESERVES

Refer to page 62 (Audit Committee report), page 109 (accounting policies), page 120 (risk disclosures), and page 155 (disclosures)

Risk	Response	What we concluded to the Audit Committee
The valuation of loss reserves incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to the ultimate amount paid varying materially from the amount estimated at this reporting date.	We understood, assessed and tested the design and operational effectiveness of the key controls in the Group's reserving process, including the review and approval of the reserves, and controls over the extraction of data from the claims systems. Supported by our actuarial specialists, we evaluated management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. The main areas of judgement include the level of reserves held for specific losses, the loss development patterns selected and the initial expected loss ratios. Using management's data, we independently re-projected the loss and loss adjustment expense reserves for LUK, LICL, and Cathedral on both a gross and net basis, investigating significant differences between our projections and management's booked reserves. Using our own re-projection we then considered whether the loss and loss adjustment expense reserves held at the year-end fall within a reasonable range of possible estimates. We considered the results of the third-party actuarial review of the loss and loss adjustment reserves as at the reporting date, presented to the Audit Committee, again specifically to identify and understand any significant differences in projections. In light of our work outlined above, we considered the adequacy of disclosures of the judgements and uncertainties being made by the Directors in the insurance risk note on page 114 and note 13 related to losses and loss adjustment expenses.	Taken as a whole, we consider that management's judgement in the areas highlighted is reasonable based on the information available at the date of this report. Consistent with the prior period, the Group's booked reserves lie within what we consider to be a reasonable range of estimates. In addition we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of loss reserves.

GOODWILL AND INTANGIBLE ASSETS

Refer to page 62 (Audit Committee report), page 108 (accounting policy) and page 159 (disclosures)

Risk	Response	What we concluded to the Audit Committee
During 2015 we considered the risk that the goodwill and intangible assets arising from the Cathedral acquisition may be impaired. In testing for impairment, judgement is applied by management in deriving: • the forecast cash flows; and • the pre-tax discount rate applied to those cash flows.	Management's impairment assessment of the recorded value of goodwill and the syndicate participation rights was performed as at 30 September 2015. We evaluated and challenged this assessment, including: • validating that the base cash flows used are consistent with the three year forecast approved by the Board; • challenging the three year plan, having regard to back testing performed by management to support the robustness of the forecast process and having regard to market conditions; • satisfied ourselves whether the pre-tax discount rate applied is appropriate by assessing the cost of capital for the Group and comparable businesses; and • assessing whether long term growth assumptions are consistent with economic and industry forecasts; and challenging the adequacy of sensitivity analysis performed by management, by re-performing our own stress tests of the pre-tax discount rate, forecast cash flows, and long term growth rate assumptions in isolation and in combination to consider reasonably possible alternative scenarios.	We agreed with management's assessment at 30 September 2015, that the recoverable amounts exceeded the recorded values with headroom remaining when key assumptions were stressed for what we consider to be cautious assumptions, and that as a result, no impairment of the goodwill and indefinite lived intangible assets was required. We also agreed with management's assessment that no impairment triggers occurred in the final quarter of the year.

REVENUE RECOGNITION – PREMIUM ESTIMATES

Refer to page 63 (Audit Committee report) and page 108 (accounting policy)

Risk	Response	What we concluded to the Audit Committee
For certain contracts written, premium revenues are initially recognised based on estimates of ultimate premiums. This occurs for contracts where pricing is based on variables which are not known with certainty at the point of binding the contract. Subsequent adjustments to those estimates, which arise as updated information relating to those pricing variables becomes available, are recorded in the period in which they are determined. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the consolidated financial statements.	We evaluated and tested the key controls over the premium estimation process, which include the periodic review by management of estimated premiums, taking into account any third-party information received from intermediaries or insureds. For a sample of policies we verified the year end estimated premium income, including considering the basis of estimation and corroborating evidence such as information from brokers. We have analysed the development, during the period, of estimates recognised as at 31 December 2014 to identify if there is any indication of management bias.	Based on the results of the procedures performed we have concluded that the premium estimates are recorded in line with the Group's accounting policy.

THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each component.

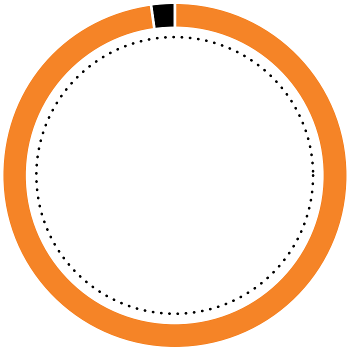
In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the consolidated financial statements, we selected all of the reporting components of the Group, covering the insurance entities within UK and Bermuda, namely LUK, LICL, and Cathedral, the Group Companies, which include the third-party capital management business, Kinesis, and the Group's investment in associate.

We performed an audit of the complete financial information of the four components ("full scope components") which were selected based on their size or risk characteristics. We carried out specific audit procedures on the balances arising from the Group's investment in associate.

The reporting components where we performed audit procedures accounted for 100 per cent (2014: 97 per cent) of the Group's profit before tax, 100 per cent (2014: 100 per cent) of the Group's gross premiums written and 100 per cent (2014: 100 per cent) of the Group's insurance contract liabilities.

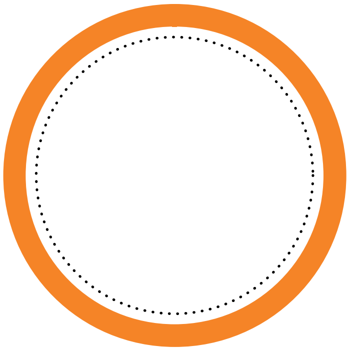
The charts below illustrate the coverage obtained from the work performed by our audit teams.

PROFIT BEFORE TAX



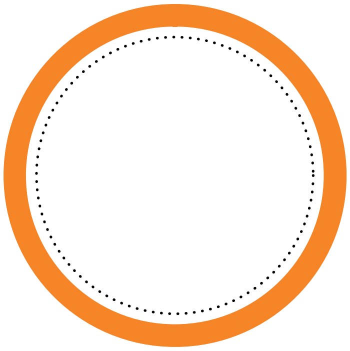
■ 98% Full scope audit procedures
■ 2% Specific scope audit procedures

GROSS PREMIUMS WRITTEN



■ 100% Full scope audit procedures

INSURANCE CONTRACT LIABILITIES



■ 100% Full scope audit procedures

CHANGES FROM THE PRIOR YEAR

There have been no material scoping changes from the prior year.

INVOLVEMENT WITH COMPONENT TEAMS

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The Group audit team visited all of the full scope components. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing key audit working papers on the Group risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the consolidated financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $8.6 million (2014: $10.0 million), which is approximately 5 per cent (2014: approximately 5 per cent) of profit before tax. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timings and extent of further audit procedures. The decrease in materiality from the prior period is due to the reduced profit before tax during the current period.

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50 per cent (2014: 50 per cent) of our planning materiality, namely $4.3 million (2014: $5.0 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $4.3 million to $2.4 million (2014: $4.0 million to $1.2 million).

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.5 million (2014: $0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

In forming our opinion, we evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

SCOPE OF THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the consolidated financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 93, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The Company has also instructed us to audit the section of the Directors' Remuneration Report that has been described as audited and state whether it has been properly prepared in accordance with the basis of preparation described therein.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

OPINION ON OTHER MATTER

In our opinion the part of the Directors' Remuneration Report that is described as having been audited has been properly prepared in accordance with the basis of preparation as described therein.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report and Accounts is: • materially inconsistent with the information in the audited consolidated financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report and Accounts appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Listing Rules review requirements	We are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the Annual Report and Accounts about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the consolidated financial statements; and • the Directors' explanation in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have no exceptions to report.

Ernst & Young LLP
London

17 February 2016

---

(1) The maintenance and integrity of the Lancashire Holdings Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

(2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 $m	2014 $m
Gross premiums written	2	**641.1**	907.6
Outwards reinsurance premiums	2	**(159.4)**	(164.8)
Net premiums written		**481.7**	742.8
Change in unearned premiums	2	**79.9**	(37.0)
Change in unearned premiums on premiums ceded	2	**5.5**	9.8
Net premiums earned		**567.1**	715.6
Net investment income	3	**29.8**	28.6
Net other investment (losses) income	3	**(1.3)**	1.4
Net realised (losses) gains and impairments	3	**(2.8)**	(5.9)
Share of profit of associates	17	**4.1**	5.9
Other income	27	**19.9**	19.3
Net foreign exchange losses		**(2.4)**	(0.1)
Total net revenue		**614.4**	764.8
Insurance losses and loss adjustment expenses	2, 13	**177.5**	237.9
Insurance losses and loss adjustment expenses recoverable	2, 13	**(21.8)**	(11.4)
Net insurance losses		**155.7**	226.5
Insurance acquisition expenses	2, 4	**148.2**	161.8
Insurance acquisition expenses ceded	2, 4	**(2.0)**	(8.4)
Other operating expenses	5, 6, 25	**106.6**	111.3
Equity based compensation	6	**15.8**	23.3
Total expenses		**424.3**	514.5
Results of operating activities		**190.1**	250.3
Financing costs	7	**18.4**	23.8
Profit before tax		**171.7**	226.5
Tax credit	8	**10.0**	3.1
Profit for the year		**181.7**	229.6
Profit for the year attributable to:			
Equity shareholders of LHL		**181.1**	229.3
Non-controlling interests		**0.6**	0.3
Profit for the year		**181.7**	229.6
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 10	**(11.6)**	(2.2)
Tax provision on net change in unrealised gains/losses on investments	10	**0.3**	0.1
Other comprehensive loss	10	**(11.3)**	(2.1)
Total comprehensive income for the year		**170.4**	227.5
Total comprehensive income attributable to:			
Equity shareholders of LHL		**169.8**	227.2
Non-controlling interests		**0.6**	0.3
Total comprehensive income for the year		**170.4**	227.5
Earnings per share			
Basic	26	**$0.93**	$1.24
Diluted	26	**$0.91**	$1.16

CONSOLIDATED BALANCE SHEET
As at 31 December 2015

	Notes	2015 $m	2014 $m
Assets			
Cash and cash equivalents	9, 22	**291.8**	303.5
Accrued interest receivable		**6.5**	7.7
Investments	10, 11, 22	**1,773.3**	1,986.9
Inwards premiums receivable from insureds and cedants	14	**253.7**	316.2
Reinsurance assets			
– Unearned premiums on premiums ceded	12	**30.2**	24.7
– Reinsurance recoveries	13	**83.9**	112.4
– Other receivables	12, 14	**2.7**	5.3
Other receivables		**37.8**	36.6
Corporation tax receivable		**–**	4.3
Investment in associate	11, 17	**47.5**	52.7
Property, plant and equipment	18	**7.2**	9.1
Deferred acquisition costs	15	**87.2**	104.6
Intangible assets	19	**153.8**	153.8
Total assets		**2,775.6**	3,117.8
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	13	**671.0**	752.6
– Unearned premiums	20	**399.2**	479.1
– Other payables	20, 21	**36.2**	40.8
Amounts payable to reinsurers	12, 21	**26.6**	34.2
Deferred acquisition costs ceded	15	**0.3**	0.1
Other payables	21	**67.0**	83.5
Corporation tax payable		**1.8**	–
Deferred tax liability	16	**25.6**	38.7
Interest rate swap	22	**4.8**	4.9
Long-term debt	22	**322.3**	326.6
Total liabilities		**1,554.8**	1,760.5
Shareholders' equity			
Share capital	23	**100.7**	96.1
Own shares	23	**(30.4)**	(43.3)
Other reserves	24	**880.8**	887.1
Accumulated other comprehensive (loss) income	10	**(10.5)**	0.8
Retained earnings		**279.7**	416.1
Total shareholders' equity attributable to equity shareholders of LHL		**1,220.3**	1,356.8
Non-controlling interests	27	**0.5**	0.5
Total shareholders' equity		**1,220.8**	1,357.3
Total liabilities and shareholders' equity		**2,775.6**	3,117.8

The consolidated financial statements were approved by the Board of Directors on 17 February 2016 and signed on its behalf by:

Martin Thomas
Director/Chairman

Elaine Whelan
Director/CFO

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2015

	Notes	Share capital $m	Own shares $m	Share premium $m	Other reserves $m	Accumulated other comprehensive 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 2013		92.7	(36.8)	192.2	700.9	2.9	507.8	1,459.7	0.7	1,460.4
Total comprehensive income for the year	10	–	–	–	–	(2.1)	229.3	227.2	0.3	227.5
Share premium reclassification	24, 28, 29	–	–	(192.2)	192.2	–	–	–	–	–
Share repurchases	23	–	(25.0)	–	–	–	–	(25.0)	–	(25.0)
Purchase of shares from non-controlling interests	24, 27	–	–	–	(0.6)	–	–	(0.6)	(0.5)	(1.1)
Distributed by trust	23, 24	–	21.6	–	(28.3)	–	–	(6.7)	–	(6.7)
Shares donated to trust	23, 24, 27	–	(8.1)	–	8.1	–	–	–	–	–
Dividends on common shares	23	–	–	–	–	–	(288.9)	(288.9)	–	(288.9)
Dividend equivalents on warrants	23	–	–	–	–	–	(32.1)	(32.1)	–	(32.1)
Warrant exercises	23, 24	3.4	5.0	–	5.7	–	–	14.1	–	14.1
RSS compensation	24	–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Equity based compensation – tax	8, 24	–	–	–	(4.4)	–	–	(4.4)	–	(4.4)
Equity based compensation – expense	6, 24	–	–	–	23.3	–	–	23.3	–	23.3
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 year	10	**–**	**–**	**–**	**–**	**(11.3)**	**181.1**	**169.8**	**0.6**	**170.4**
Shares purchased by trust	23, 24, 27, 28	**0.5**	**(9.3)**	**–**	**8.8**	**–**	**–**	**–**	**–**	**–**
Distributed by trust	23, 24	**–**	**12.5**	**–**	**(17.2)**	**–**	**–**	**(4.7)**	**–**	**(4.7)**
Dividends on common shares	23	**–**	**–**	**–**	**–**	**–**	**(316.0)**	**(316.0)**	**–**	**(316.0)**
Dividend equivalents on warrants	23	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**	**–**	**(1.5)**
Dividends paid to minority interest holders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Warrant exercises	23, 24, 28	**4.1**	**9.7**	**–**	**(13.8)**	**–**	**–**	**–**	**–**	**–**
Equity based compensation – tax	8, 24	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**	**–**	**0.1**
Equity based compensation – expense	6, 24	**–**	**–**	**–**	**15.8**	**–**	**–**	**15.8**	**–**	**15.8**
Balance as at 31 December 2015		**100.7**	**(30.4)**	**–**	**880.8**	**(10.5)**	**279.7**	**1,220.3**	**0.5**	**1,220.8**

STATEMENT OF CONSOLIDATED CASH FLOWS

For the year ended 31 December 2015

	Notes	**2015** **$m**	2014 $m
Cash flows from operating activities			
Profit before tax		**171.7**	226.5
Tax refunded		**4.4**	1.0
Depreciation	5	**1.9**	2.1
Amortisation of intangible asset	19	**–**	23.4
Interest expense on long-term debt	7	**15.1**	15.5
Interest and dividend income		**(40.9)**	(50.5)
Net amortisation of fixed income securities		**8.1**	9.9
Equity based compensation	6	**15.8**	23.3
Foreign exchange losses		**10.8**	7.3
Share of profit of associates	17	**(4.1)**	(5.9)
Net other investment losses (income)	3	**1.3**	(1.4)
Net realised losses (gains) and impairments	3	**2.8**	5.9
Net unrealised (gains) losses on interest rate swaps		**(0.1)**	4.7
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**(71.0)**	(35.5)
– Other assets and liabilities		**(17.7)**	(13.8)
Net cash flows from operating activities		**98.1**	212.5
Cash flows from investing activities			
Interest and dividends received		**42.1**	52.0
Net purchase of property, plant and equipment		**–**	(8.7)
Investment in associates	27	**9.3**	17.9
Purchase of investments		**(990.8)**	(2,153.7)
Proceeds on sale of investments		**1,173.5**	2,159.0
Net cash flows from investing activities		**234.1**	66.5
Cash flows used in financing activities			
Interest paid		**(15.2)**	(15.5)
Dividends paid	23	**(317.5)**	(321.0)
Dividend paid to minority interest holders		**(0.6)**	–
Share repurchases		**–**	(25.0)
Warrant exercises		**–**	14.1
RSS compensation		**–**	(9.8)
Distributions by trust		**(4.7)**	(6.7)
Purchase of shares from non-controlling interests	27	**–**	(1.1)
Net cash flows used in financing activities		**(338.0)**	(365.0)
Net decrease in cash and cash equivalents		**(5.8)**	(86.0)
Cash and cash equivalents at beginning of year		**303.5**	403.0
Effect of exchange rate fluctuations on cash and cash equivalents		**(5.9)**	(13.5)
Cash and cash equivalents at end of year	9	**291.8**	303.5

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

BASIS OF PREPARATION

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

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

While a number of new or amended IFRS and IFRIC standards have been issued there are no standards issued that have had a material impact on the Group.

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and, as noted above, does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's project and is expected to include a number of significant changes regarding the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed income, equity securities and hedge funds as AFS or FVTPL. The new standard is effective for annual periods beginning on or after 1 January 2018, although it is likely to be deferred to insurers to better align with the implementation date of IFRS 4 Phase II. IFRS 9 is not expected to have a material impact on the results and disclosures reported in the consolidated financial statements.

The consolidated balance sheet of the Group is presented in order of decreasing liquidity.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to losses and loss adjustment expenses. This is discussed on page 109 and also in the risk disclosures section from page 120. Estimates in relation to losses and loss adjustment expenses recoverable are discussed on page 109.

Estimates are also made in determining the estimated fair value of certain financial instruments and equity compensation plans. The estimation of the fair value of financial instruments is discussed on pages 109 and 110 and in note 10. Management judgement is applied in determining impairment charges. The estimation of the fair value of equity based compensation awards granted is discussed in note 6.

Intangible assets are recognised on the acquisition of a subsidiary. The fair value of intangible assets arising from the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU to which the intangible assets are allocated. The assumptions made by management in performing impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are contained in note 19.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. The Group participates on two Syndicates at Lloyd's, which are managed by the Group's managing agent subsidiary. In view of the several liability of underwriting members at Lloyd's, the Group recognises its proportion of all the transactions undertaken by the Syndicates in which it participates within its consolidated statement of comprehensive income. Similarly, the Group's proportion of the Syndicates' assets and liabilities has been reflected in its consolidated balance sheet. This proportion is calculated by reference to the Group's participation as a percentage of each Syndicate's total capacity for each year of account.

Subsidiaries' accounting policies are generally consistent with the Group's accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

ASSOCIATES

Investments, in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income and loss from such investments in its consolidated statement of comprehensive income for the period. Adjustments are made to associates' accounting policies, where necessary, in order to be consistent with the Group's accounting policies.

FOREIGN CURRENCY TRANSLATION

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the consolidated statement of comprehensive income. Non-monetary assets and liabilities carried at historical cost and denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in accumulated other comprehensive income in shareholders' equity.

INTANGIBLE ASSETS

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the intangible asset. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

GOODWILL

Goodwill is deemed to have an indefinite life and, after initial recognition, is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or when events or changes in circumstances indicate that it might be impaired.

SYNDICATE PARTICIPATION RIGHTS

Syndicate participation rights purchased in a business combination are initially measured at fair value and are subsequently measured at cost less any accumulated impairment losses. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually, or when events or changes in circumstances indicate that it might be impaired.

VALUE OF IN-FORCE BUSINESS

The value of in-force business acquired in a business combination is initially recognised as the difference between the fair value of the net unearned premiums acquired and the measurement of the net unearned premiums acquired using the Group’s existing accounting policies. The value of in-force business has a finite useful life and subsequent to initial recognition it is carried at cost less accumulated amortisation and is amortised over the remaining life of the acquired insurance contracts. The portion of the value of in-force business which replaced the deferred acquisition costs carried on Cathedral’s historical balance sheet was amortised in net acquisition costs in the consolidated statement of comprehensive income. The remaining amortisation was charged to other operating expenses.

INSURANCE CONTRACTS

CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the later of a contract’s binding or inception date. The Group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned rateably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured’s or ceding company’s loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR which do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to income as they are incurred.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reports of losses received from third parties. ACRs are determined where the Group's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are set on a best estimate basis and are estimated by management using various actuarial methods as well as a combination of own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

The estimation of the ultimate liability arising is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in losses and loss adjustment expenses.

LIABILITY ADEQUACY TESTS

At each balance sheet date, the Group performs a liability adequacy test using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

INVESTMENTS

The Group's fixed income and equity securities are quoted or unquoted investments that are classified as AFS or at FVTPL and are carried at estimated fair value. The classification of the Group's financial assets is determined at the time of initial purchase and depends on the nature of the investment. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis and if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. AFS financial assets are non-derivatives that are not classified as FVTPL or in any of the other categories.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at estimated fair value. Estimated fair values 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.

Regular way purchases and sales of investments are recognised at estimated fair value including transaction costs on the trade date and are subsequently carried at estimated fair value. The estimated fair values of quoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains and losses from changes in estimated fair value of AFS investments are included in accumulated other comprehensive income in shareholders' equity. Changes in estimated fair value of investments classified at FVTPL are recognised in current period net other investment income.

Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. On derecognition of an AFS investment, previously recorded unrealised gains and losses are removed from accumulated other comprehensive income in shareholders' equity and included in current period income. Realised gains and losses are included in income in the period in which they arise.

Amortisation and accretion of premiums and discounts on AFS fixed income securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity. Dividends on equity securities are recorded as income on the date the dividends become payable to the holders of record.

The Group regularly reviews the carrying value of its AFS investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive income in shareholders' equity and charged to current period income. Impairment losses on fixed income securities may be subsequently reversed through income while impairment losses on equity securities are not subsequently reversed through income.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognised at estimated fair value on the date a contract is entered into, the trade date, and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative estimated fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in current period income. The Group does not currently hold any derivatives classified as hedging instruments. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled or expired.

OTHER INCOME

Managing agents fees and commissions and underwriting service fees are recognised in line with services provided. Contingent profit commissions are recognised when it is virtually certain that they will be realised.

LONG-TERM DEBT

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to income as incurred.

LEASES

Rentals payable under operating leases are charged to income on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

EQUITY COMPENSATION PLANS

The Group currently operates an RSS under which nil-cost options have been granted. The Group has also operated a management warrant plan and an LTIP option plan in the past. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred to other reserves.

PENSIONS

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive income in the period to which they relate.

TAX

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period. Taxable profit for the period can differ from that reported in the consolidated statement of comprehensive income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the consolidated balance sheet and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Where the current estimated fair value of equity based compensation awards differs from the estimated fair value at the time of grant, adjusted where applicable for dividends, the related corporation tax and deferred tax charge or credit is recognised directly in other reserves.

OWN SHARES

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

RISK DISCLOSURES: INTRODUCTION

The Group is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and reward is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary marginally from time to time to reflect the potential risks and rewards that present themselves. However, protecting the Group's capital and providing investors with a superior risk-adjusted return over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modeled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on at least a monthly basis, management reviews the output from BLAST in order to assess modeled potential losses against risk tolerances and ensure that risk levels are managed in accordance with them.

RISK AND RETURN COMMITTEE

The RRC seeks to optimise risk-adjusted return and facilitate the appropriate use of the Internal Model, including considering its effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity boards of directors. The RRC includes the Group CEO and members from the finance, actuarial and underwriting functions and includes representation from Cathedral. The CRO attends the meetings and reports on the RRC's activities to the Group and individual entity boards of directors and the Risk Committee of Cathedral.

CHIEF RISK OFFICER

The primary role of the CRO is to facilitate the effective operation of ERM throughout the Group at all levels. The role includes but is not limited to the following responsibilities:

- overall management of the risk management system;
- drive ERM culture, ownership and execution on three levels: Board, executive management, and operationally within the business;
- facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board;
- ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision making process;
- be consulted, and opine, on policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and
- provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

Responsibility for the management of individual risks has been assigned to, and may form part of the performance objectives of, the risk owners within the business. Risk owners ensure that these risks and controls are consistent with their day-to-day processes and the entries made in the Group risk registers, which are a direct input into BLAST. The CRO provides regular reports to the business outlining the status of the Group's ERM activities and strategy, as well as formal reports to the Boards of Directors of the Group and the individual operating entities in this regard including the Risk Committee of Cathedral. The CRO ultimately has the right to report directly to the Group and entity regulators if they feel that management is not appropriately addressing areas of concern.

INTERNAL AUDIT

Internal audit plays a key role in the Group's ERM by providing an independent opinion regarding the accuracy and completeness of risks, in addition to verification of the effectiveness of controls and the consistency of their operation. Internal audit's roles and responsibilities are clearly defined through the Internal Audit Charter. The Head of Internal Audit reports directly to the Group Audit Committee. The CRO has input to the scope of each audit and receives a copy of each internal audit report. The CRO considers the findings and agreed actions in the context of the risk appetites and tolerances, plus the risk policies and risk management strategy of each area. The integration of internal audit and ERM into the business helps facilitate the Group's protection of its assets and reputation.

ECONOMIC CAPITAL MODEL

The foundation of the Lancashire Companies' and Kinesis' risk-based capital approach to decision making is its economic capital model, BLAST, which is based on the widely accepted economic capital modeling tool, ReMetrica. Management uses BLAST primarily for monitoring its insurance risks. However, BLAST is also used to monitor other risks including market, credit and operational risks.

BLAST produces data in the form of a stochastic distribution for all classes, including non-elemental classes. The distribution includes the mean outcome and the result at various return periods, including very remote events. BLAST calculates projected financial outcomes for each insurance class, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time. BLAST also measures the Group's aggregate insurance exposures. It therefore helps senior management and the Board of Directors to determine the level of capital required to meet the combined risk from a wide range of categories. Assisted by BLAST, the Group seeks to achieve an improved risk-adjusted return over time.

BLAST is used in strategic underwriting decisions, as part of the Group's annual business planning process and to assist in portfolio optimisation, taking account of inwards business and all major reinsurance purchases. Management also utilises BLAST in assessing the impact of strategic decisions on individual classes of business that the Group writes, or is considering writing, as well as the overall resulting financial impact to the Group. BLAST output, covering all of the risk groups to which the Group is exposed, is reviewed, including the anticipated loss curves, combined ratios and risk-adjusted profitability, to determine profitability and risk tolerance headroom by class.

BLAST covers the risks for LICL, LUK and Kinesis but does not cover Cathedral's risk. Due to the particular requirements of Lloyd's regulations, Cathedral has its own Internal Model which is vetted by Lloyd's as part of its own capital and solvency regulations. To formulate an overall Group view of risk, exposures from Cathedral are combined with LICL, LUK and Kinesis using Lancashire's proprietary Internal Models.

The six primary risk categories, insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, are discussed in detail on pages 114 to 138.

A. INSURANCE RISK

The Group underwrites worldwide, predominantly 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, and broader economic cycle impacts 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 premiums sufficient to meet likely losses and expenses and desired levels of profitability consistent with the Group's risk-adjusted RoE targets.

The Group considers insurance risk at an individual contract level, at a sector level, a geographic level and at an aggregate portfolio level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The four principal classes of business for the Group, excluding the Lloyd's segment, are Property, Energy, Marine and Aviation. These classes, plus the Group's Lloyd's segment, are deemed to be the Group's five operating segments. The level of insurance risk tolerance per peril is set by the respective Boards of Directors at both the LHL and entity level.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Group has a rolling three-year strategic plan that helps establish the over-riding business goals that the Board of Directors aims to achieve;
- a detailed business plan is produced annually which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for Cathedral, the Syndicate business forecast and business plan are subject to review and approval by Lloyd's;
- BLAST, SHARP and Cathedral's internal models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks, and the outputs and assumptions from BLAST and SHARP are reviewed periodically by the RRC;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are monitored on a regular basis;
- a daily underwriting call is held for LICL and LUK to peer review insurance proposals, opportunities and emerging risks;
- a daily post-binding review process with exception reporting to management based on underwriting authority operates at Cathedral;
- sophisticated pricing and aggregation models are utilised in certain areas of the underwriting process, and are updated frequently;
- BLAST and other modeling tools are deployed to model catastrophes and resultant losses to the portfolio and the Group; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a treaty or facultative basis and to improve risk-adjusted RoE as modeled in BLAST.

Some of the Group's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes and floods) and is subject to potential seasonal variation. A proportion of the Group's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events. The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associate.

The Group's exposures to certain peak zone elemental losses, 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 to the investment in associate is included in the figures below.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2015		**$m**	**% of tangible capital**	**$m**	**% of tangible capital**
Zones	**Perils**				
Non-Gulf of Mexico – U.S.	Hurricane	**236.2**	**17.0**	**457.4**	**32.9**
Gulf of Mexico[1]	Hurricane	**231.6**	**16.7**	**347.2**	**25.0**
California	Earthquake	**157.7**	**11.4**	**250.8**	**18.1**
Pan-European	Windstorm	**92.2**	**6.6**	**145.6**	**10.5**
Japan	Earthquake	**72.1**	**5.2**	**121.2**	**8.7**
Japan	Typhoon	**47.7**	**3.4**	**69.3**	**5.0**
Pacific North West	Earthquake	**37.1**	**2.7**	**98.5**	**7.1**

(1) Landing hurricane from Florida to Texas.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2014		$m	% of tangible capital	$m	% of tangible capital
Zones	**Perils**				
Non-Gulf of Mexico – U.S.	Hurricane	254.0	16.6	455.8	29.8
Gulf of Mexico[1]	Hurricane	254.2	16.6	377.2	24.7
California	Earthquake	154.8	10.1	247.5	16.2
Pan-European	Windstorm	133.2	8.7	205.0	13.4
Japan	Earthquake	116.0	7.6	184.8	12.1
Japan	Typhoon	61.2	4.0	94.6	6.2
Pacific North West	Earthquake	39.5	2.6	123.3	8.1

(1) Landing hurricane from Florida to Texas.

There can be no guarantee that the modeled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodeled loss which exceeds these figures. In addition, any modeled loss scenario could cause a larger loss to capital than the modeled expectation.

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2015		2014	
	$m	**%**	$m	%
U.S. and Canada	**176.1**	**27.5**	221.7	24.4
Worldwide offshore	**153.2**	**23.9**	287.4	31.7
Worldwide, including the U.S. and Canada[1]	**135.6**	**21.2**	172.5	19.0
Europe	**48.9**	**7.6**	59.6	6.6
Far East	**31.2**	**4.9**	42.7	4.7
Worldwide, excluding the U.S. and Canada[2]	**18.2**	**2.8**	23.2	2.6
Middle East	**8.0**	**1.2**	9.5	1.0
Rest of world	**69.9**	**10.9**	91.0	10.0
Total	**641.1**	**100.0**	907.6	100.0

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

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

Details of annual gross premiums written by business segment are provided below:

	2015		2014	
	$m	%	$m	%
Lloyd's	**247.7**	**38.6**	284.3	31.3
Property	**197.2**	**30.8**	263.0	28.9
Energy	**112.0**	**17.5**	239.4	26.4
Marine	**47.6**	**7.4**	67.7	7.5
Aviation	**36.6**	**5.7**	53.2	5.9
Total	**641.1**	**100.0**	907.6	100.0

Further details of the gross premiums written and the risks associated with each of these five principal business segments are described on the following pages.

I. LLOYD'S

Gross premiums written, for the year:

	2015 $m	2014 $m
Property reinsurance	**92.9**	104.3
Property direct and facultative	**66.2**	80.7
Marine cargo	**29.6**	37.5
Aviation and satellite	**28.5**	27.6
Energy	**20.1**	25.9
Terrorism	**6.0**	3.5
Contingency	**4.4**	4.8
Total	**247.7**	284.3

Property reinsurance predominantly includes property catastrophe excess of loss, property per risk excess of loss and property retrocession lines of business. Property catastrophe excess of loss and property per risk excess of loss provide protection for elemental and non-elemental risks and are written on an excess of loss treaty basis within the U.S. and internationally. The U.S. property catastrophe excess of loss book is particularly focused on regional clients. Property retrocession is written on an excess of loss basis through treaty arrangements. It provides coverage for elemental risks when sold on a catastrophe basis and both elemental and non-elemental risks when sold on a per risk retrocession basis. Protection is generally given on a regional basis and may cover specific property risks or all catastrophe perils. It is also generally written on an UNL basis, meaning loss payments are linked to the ceding company's own loss.

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Marine cargo is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

Aviation and satellite includes aviation reinsurance, aviation war, general aviation and aviation satellite lines of business. Aviation reinsurance provides excess of loss catastrophe cover to the insurers of the world's major airlines and aircraft and aircraft manufacturers. This includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers. Aviation war covers loss or damage to aviation assets from war, terrorism and similar causes. General aviation covers fixed wing and rotor wing aircraft typically with 50 passenger seats or less and covers both commercial and private clients. A significant part of the aviation satellite account is written through Satec, a specialist underwriting agency, to which underwriting authority is delegated. Satellite insurance is purchased by launch operators, satellite manufacturers and satellite operators to protect against launch or deployment failure or subsequent failure in orbit. Policies are typically written for launch plus one year in orbit. Thereafter orbit cover is normally provided on an annual basis.

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, well control, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple risk carriers. Construction energy contracts generally cover all risks of platforms, FPSO and drilling units under construction at yard and offshore, during towing and installation. Onshore construction contracts are generally not written.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts may be multi-year, reflecting the term of the underlying exposures. Reinsurance may be purchased on a facultative or treaty basis.

Contingency focuses on the sports, leisure and entertainment industries, with a significant emphasis on the music industry. It provides coverage for non-appearance and event cancellation. Generally business is written on a full value basis.

II. PROPERTY

Gross premiums written, for the year:

	2015 **$m**	2014 $m
Property catastrophe excess of loss	**90.6**	124.2
Terrorism	**43.8**	55.2
Property political risk	**33.3**	44.4
Property retrocession	**13.6**	18.1
Other property	**15.9**	21.1
Total	**197.2**	263.0

Property catastrophe excess of loss covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts is often multi-year reflecting the term of the underlying exposures. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground-up or on an excess of loss basis. Coverage that the Group provides in the political risk book is split between confiscation perils coverage and sovereign/quasi-sovereign obligor coverage. Confiscation perils coverage protects against CEND and may be extended to include other perils. Sovereign/quasi-sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a sovereign or quasi-sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The term of these contracts is often multi-year reflecting the term of the underlying exposures. The Group does not provide cover against purely private obligor credit risk.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on an ILW basis, meaning that loss payments are linked to the overall industry insured loss as measured by independent third-party loss index providers.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, primarily from assuming property catastrophe excess of loss and property retrocession portfolio risks. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modeling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines for large losses are set out on pages 114 and 115.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or quota share arrangements may be entered into.

III. ENERGY

Gross premiums written, for the year:

	2015 $m	2014 $m
Worldwide offshore energy	**92.8**	149.9
Gulf of Mexico offshore energy	**6.1**	69.9
Energy liabilities	**3.3**	8.5
Construction energy	**2.8**	6.5
Other energy	**7.0**	4.6
Total	**112.0**	239.4

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple risk carriers.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modeling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines to large losses are set out on pages 114 and 115.

The Group writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that Lancashire writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

IV. MARINE

Gross premiums written, for the year:

	2015 $m	2014 $m
Marine hull and total loss	**19.9**	29.6
Marine P&I clubs	**13.0**	12.8
Marine builders' risk	**6.5**	12.2
Marine hull war	**6.0**	10.3
Other marine	**2.2**	2.8
Total	**47.6**	67.7

With the exception of the marine P&I clubs, where excess layers are written, most policies are written on a ground-up basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine P&I clubs is mostly the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities. Marine builders' risk covers the building of ocean going vessels in specialised yards worldwide and their testing and commissioning. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs for removal of wreck.

Reinsurance may be purchased to reduce the Group's exposure to both large risk losses and an accumulation of smaller, attritional losses. Reinsurance is typically purchased on a treaty excess of loss basis.

V. AVIATION

Gross premiums written, for the year:

	2015 $m	2014 $m
AV52	**23.5**	25.9
Aviation satellite	**12.2**	24.8
Other aviation	**0.9**	2.5
Total	**36.6**	53.2

AV52 is written on a risk attaching excess of loss basis and provides coverage for third-party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does, since 2014, include some U.S. commercial airlines.

Aviation satellite cover is written on a full value, primary or excess of loss basis and can provide cover for satellite launch, satellite in-orbit or both satellite launch and in-orbit. Coverage for in-orbit can be provided on an annual or multi-year basis and both launch and in-orbit can cover loss of earnings as well as physical damage.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

REINSURANCE

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results, and to improve the modeled risk-adjusted RoE by entering into reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The RSC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case-by-case basis, and would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. The RSC monitors its reinsurers on an ongoing basis and will formally review the Group's reinsurance arrangements at least quarterly.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include ILW covers or quota share arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and sub-class. The Group regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group can purchase both facultative and treaty reinsurance. There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances, as it is possible that the cover purchased is not sufficient to transfer the totality of the Group's exposure. Any loss amount which exceeds the programme would be retained by the Group. Some parts of the reinsurance programme have limited reinstatements, therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group, particularly given the nature of the business written.

Under U.S. GAAP, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All reserves are reported on an undiscounted basis.

Losses and loss adjustment expenses are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilised, and then a range is developed around these point estimates. The point estimate represents management's best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual corroborative review by independent actuaries, using U.S. generally accepted actuarial principles. This independent review is presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent of reliance on management's judgement in the reserving process differs as to whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or on a pro-rata basis. Over a typical annual period, the Group expects to write the large majority of programmes on a direct excess of loss basis. The Group does not currently write a significant amount of long-tail business.

INSURANCE VERSUS REINSURANCE

Loss reserve calculations for direct insurance business are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. These estimates and judgements are based on numerous factors and may be revised as additional experience or other data becomes available or reviewed as new or improved methodologies are developed or as current laws or regulations change.

Furthermore, as a broker market reinsurer, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to the estimation of the ultimate losses.

SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Group, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. However, the timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, and whether the losses are from policies in force with insureds, primary insurers, reinsurers or vendor binding authorities.

EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Group's business, management are aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month lag.

UNCERTAINTY

As a result of the time lag described above, an estimation must be made of IBNR reserves, which consist of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Group underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and are therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving. The claims count on the types of insurance and reinsurance that the Group writes, which are low frequency and high severity in nature, is generally low.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

As at 31 December 2015, management's estimates for IBNR represented 35.2 per cent of total net loss reserves (31 December 2014 – 31.6 per cent). The majority of the estimate relates to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Group was not made aware by the balance sheet date.

B. MARKET RISK

The Group is at risk of loss due to movements in market factors. The main risks include:

i. Insurance risk;
ii. Investment risk;
iii. Debt risk; and
iv. Currency risk.

These risks, and the management thereof, are described below.

I. INSURANCE RISK

The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events which may cause a limit in the availability of cover, including unusual inflation in rates, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite; and
- changes in regulation including capital, governance or licensing requirements.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting meeting for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for Cathedral;
- regularly reviews output from BLAST to assess up-to-date profitability of classes and sectors;
- holds a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy;
- holds a fortnightly RRC meeting to monitor estimated exposures to peak zone elemental losses and RDS; and
- holds regular documented meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio. Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Committee and the Board of Directors.

The Group's fixed income portfolios are managed by four external investment managers. The Group also has a diversified portfolio of multi-strategy low volatility hedge funds, and a small equity portfolio. The performance of the managers is monitored on an ongoing basis.

Within the Group guidelines is a subset of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the 'core' portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed income securities, fixed income funds and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core portfolio are typically held in the 'core plus' or the 'surplus' portfolios. The core plus portfolio is invested in fixed income securities and cash and cash equivalents. The surplus portfolio is invested in fixed income securities, principal protected equity linked notes, derivative instruments, cash and cash equivalents, equity securities and hedge funds. The assets in the core plus and surplus portfolios are not matched to specific insurance liabilities. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolio, while maintaining a focus on high quality assets.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform better in a risk-on environment in order to mitigate the impact of a potential rise in interest rates. The Group endeavours to limit losses in risk-on, risk-off, and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The IRRC meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the fixed income portfolios is as follows:

	Core		Core plus		Surplus		Total	
As at 31 December 2015	**$m**	**%**	**$m**	**%**	**$m**	**%**	**$m**	**%**
– Short-term investments	**7.5**	**0.5**	**13.1**	**0.8**	**–**	**–**	**20.6**	**1.3**
– Fixed income funds	**11.4**	**0.7**	**–**	**–**	**–**	**–**	**11.4**	**0.7**
– U.S. treasuries	**178.4**	**11.1**	**157.5**	**9.8**	**57.4**	**3.6**	**393.3**	**24.5**
– Other government bonds	**24.4**	**1.5**	**22.6**	**1.4**	**18.4**	**1.2**	**65.4**	**4.1**
– U.S. municipal bonds	**0.6**	**–**	**–**	**–**	**4.6**	**0.3**	**5.2**	**0.3**
– U.S. government agency debt	**2.9**	**0.2**	**1.0**	**–**	**–**	**–**	**3.9**	**0.2**
– Asset backed securities	**16.1**	**1.0**	**66.3**	**4.1**	**31.5**	**2.0**	**113.9**	**7.1**
– U.S. government agency mortgage backed securities	**20.2**	**1.3**	**39.0**	**2.4**	**84.6**	**5.3**	**143.8**	**9.0**
– Non-agency mortgage backed securities	**5.5**	**0.3**	**12.1**	**0.8**	**4.2**	**0.3**	**21.8**	**1.4**
– Non-agency commercial mortgage backed securities	**4.1**	**0.3**	**11.5**	**0.7**	**13.2**	**0.8**	**28.8**	**1.8**
– Bank loans	**–**	**–**	**–**	**–**	**115.0**	**7.2**	**115.0**	**7.2**
– Corporate bonds	**182.4**	**11.4**	**278.9**	**17.4**	**192.5**	**12.0**	**653.8**	**40.8**
Total fixed income securities – AFS	**453.5**	**28.3**	**602.0**	**37.4**	**521.4**	**32.7**	**1,576.9**	**98.4**
Fixed income securities – at FVTPL	**–**	**–**	**–**	**–**	**24.8**	**1.6**	**24.8**	**1.6**
Total fixed income securities	**453.5**	**28.3**	**602.0**	**37.4**	**546.2**	**34.3**	**1,601.7**	**100.0**

	Core		Core plus		Surplus		Total	
As at 31 December 2014	$m	%	$m	%	$m	%	$m	%
– Short-term investments	0.1	–	30.3	1.7	–	–	30.4	1.7
– Fixed income funds	15.4	0.8	–	–	–	–	15.4	0.8
– U.S. treasuries	145.3	8.0	129.0	7.1	88.7	4.9	363.0	20.0
– Other government bonds	49.5	2.7	1.7	0.1	32.8	1.8	84.0	4.6
– U.S. municipal bonds	0.9	–	0.3	–	27.7	1.5	28.9	1.5
– U.S. government agency debt	1.4	0.1	–	–	16.1	0.9	17.5	1.0
– Asset backed securities	89.1	4.9	28.8	1.6	66.2	3.6	184.1	10.1
– U.S. government agency mortgage backed securities	40.6	2.2	41.9	2.3	85.5	4.7	168.0	9.2
– Non-agency mortgage backed securities	9.5	0.5	4.0	0.2	7.3	0.4	20.8	1.1
– Agency commercial mortgage backed securities	–	–	0.3	–	2.1	0.1	2.4	0.1
– Non-agency commercial mortgage backed securities	4.6	0.3	14.3	0.8	20.7	1.1	39.6	2.2
– Bank loans	–	–	–	–	127.9	7.0	127.9	7.0
– Corporate bonds	307.9	17.0	153.5	8.5	243.7	13.5	705.1	39.0
Total fixed income securities – AFS	664.3	36.5	404.1	22.3	718.7	39.5	1,787.1	98.3
Fixed income securities – at FVTPL	–	–	–	–	31.2	1.7	31.2	1.7
Total fixed income securities	664.3	36.5	404.1	22.3	749.9	41.2	1,818.3	100.0

Bank loans, corporate bonds, fixed income securities at FVTPL and other government bonds by country are as follows:

As at 31 December 2015	**Financials $m**	**Other industries $m**	**Total[1] $m**	**Other government bonds $m**	**Total[2] $m**
United States	**126.6**	**372.9**	**499.5**	**–**	**499.5**
United Kingdom	**48.8**	**27.7**	**76.5**	**1.0**	**77.5**
Canada	**19.4**	**15.3**	**34.7**	**13.8**	**48.5**
Netherlands	**19.2**	**10.5**	**29.7**	**7.5**	**37.2**
Australia	**26.8**	**5.7**	**32.5**	**4.2**	**36.7**
France	**14.2**	**8.4**	**22.6**	**7.8**	**30.4**
Germany	**5.2**	**13.2**	**18.4**	**10.8**	**29.2**
Japan	**15.4**	**5.1**	**20.5**	**–**	**20.5**
Norway	**8.0**	**0.7**	**8.7**	**5.3**	**14.0**
Switzerland	**11.2**	**2.1**	**13.3**	**–**	**13.3**
Sweden	**12.2**	**0.1**	**12.3**	**0.2**	**12.5**
Luxembourg	**–**	**11.8**	**11.8**	**–**	**11.8**
Hong Kong	**–**	**4.8**	**4.8**	**–**	**4.8**
Mexico	**–**	**1.0**	**1.0**	**3.5**	**4.5**
Russian Federation	**–**	**–**	**–**	**3.4**	**3.4**
Other	**2.0**	**5.3**	**7.3**	**7.9**	**15.2**
Total	**309.0**	**484.6**	**793.6**	**65.4**	**859.0**

(1) Includes bank loans, corporate bonds and fixed income securities at FVTPL.

(2) Includes bank loans, corporate bonds, fixed income securities at FVTPL and other government bonds.

As at 31 December 2014	Financials $m	Other industries $m	Total[1] $m	Other government bonds $m	Total[2] $m
United States	141.5	382.5	524.0	–	524.0
United Kingdom	49.8	37.4	87.2	0.4	87.6
Canada	29.7	19.7	49.4	24.6	74.0
Australia	34.1	7.5	41.6	9.8	51.4
France	10.3	14.6	24.9	8.4	33.3
Netherlands	13.2	11.4	24.6	6.4	31.0
Germany	2.8	15.8	18.6	9.8	28.4
Norway	15.5	0.8	16.3	5.0	21.3
Japan	10.2	7.7	17.9	–	17.9
Switzerland	15.6	0.7	16.3	–	16.3
Sweden	13.9	–	13.9	0.2	14.1
Luxembourg	–	7.2	7.2	–	7.2
Mexico	–	3.0	3.0	3.6	6.6
Hong Kong	–	4.9	4.9	–	4.9
United Arab Emirates	–	0.2	0.2	3.5	3.7
Other	4.6	9.6	14.2	12.3	26.5
Total	341.2	523.0	864.2	84.0	948.2

(1) Includes bank loans, corporate bonds and fixed income securities at FVTPL.

(2) Includes bank loans, corporate bonds, fixed income securities at FVTPL and other government bonds.

The sector allocation of the corporate bonds, fixed income securities at FVTPL and bank loans is as follows:

	2015		2014	
As at 31 December	$m	%	$m	%
Industrial	**457.9**	**57.7**	487.3	56.5
Financial	**308.5**	**38.9**	338.3	39.1
Utility	**26.7**	**3.4**	35.7	4.1
Supranationals	**0.5**	**–**	2.9	0.3
Total	**793.6**	**100.0**	864.2	100.0

The Group's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, exchange rates and economic environment and outlook.

The Group's investment portfolio is mainly comprised of fixed income securities and cash and cash equivalents. The fixed income funds are overseas deposits held by Syndicate 2010 and Syndicate 3010 in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed income securities. The Group also has small equity and hedge fund portfolios. The estimated fair value of the Group's fixed income portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed income securities would tend to rise and vice versa.

The sensitivity of the price of fixed income securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed income and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

	2015		2014	
As at 31 December	$m	%	$m	%
Immediate shift in yield (basis points)				
100	**(25.5)**	**(1.6)**	(30.6)	(1.7)
75	**(19.1)**	**(1.2)**	(22.9)	(1.3)
50	**(12.7)**	**(0.8)**	(15.3)	(0.8)
25	**(6.4)**	**(0.4)**	(7.6)	(0.4)
(25)	**6.8**	**0.4**	7.6	0.4
(50)	**13.5**	**0.8**	15.1	0.8
(75)	**20.3**	**1.3**	22.7	1.2
(100)	**27.1**	**1.7**	30.2	1.7

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. The duration of the core portfolio is matched to the modeled duration of the insurance reserves, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years and the surplus portfolio is between one and five years.

The total durations of the externally managed portfolios which are comprised of fixed income, cash and cash equivalents and certain derivatives, are as follows:

As at 31 December	2015 years	2014 years
Core portfolio	**1.7**	1.7
Core plus portfolio	**1.7**	1.9
Surplus portfolio[1]	**1.3**	1.4
Overall external portfolio[1]	**1.6**	1.6

(1) Including duration overlay.

The overall duration for fixed income, managed cash and cash equivalents and certain derivatives is 1.5 years (2014 – 1.5 years).

In addition to duration management, the Group uses VaR on a monthly basis to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modeling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. The annual VaR, at the 99th percentile confidence level, measures the minimum amount the assets should be expected to lose over a one-year time horizon, under normal conditions, 1 per cent of the time.

The Group's annual VaR calculations are as follows:

	2015		2014	
As at 31 December	**$m**	**% of shareholders' equity**	$m	% of shareholders' equity
99th percentile confidence level[1]	**28.9**	**2.4**	34.0	2.5

(1) Including the impact of internal foreign exchange hedges.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, and OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use OTC or exchange traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group currently invests in the following derivative financial instruments:

a. Futures;
b. Options;
c. Forward foreign currency contracts;
d. Swaps; and
e. Swaptions.

The net gains or losses on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive income are as follows:

As at 31 December 2015	**Net other investment income $m**	**Net realised (losses) $m**	**Net foreign exchange gains $m**	**Financing (losses) $m**
Treasury futures	**–**	**(1.4)**	**–**	**–**
Forward foreign currency contracts	**–**	**–**	**3.6**	**–**
Interest rate swaps – held internally	**–**	**–**	**–**	**(2.5)**
Total	**–**	**(1.4)**	**3.6**	**(2.5)**

As at 31 December 2014	Net other investment (losses) $m	Net realised (losses) $m	Net foreign exchange (losses) $m	Financing (losses) $m
Treasury futures	–	(6.0)	–	–
Forward foreign currency contracts	–	–	(0.7)	–
Interest rate swaps – investments portfolio	(0.1)	(0.1)	–	–
Interest rate swaps – held internally	–	–	–	(7.4)
Swaptions	(2.2)	(2.1)	–	–
Total	(2.3)	(8.2)	(0.7)	(7.4)

The estimated fair values of the Group's derivative instruments are as follows:

	2015				2014			
As at 31 December	**Other investments $m**	**Other receivables $m**	**Other payables $m**	**Interest rate swaps $m**	Other investments $m	Other receivables $m	Other payables $m	Interest rate swaps $m
Forward foreign currency contracts	**–**	**1.6**	**(0.7)**	**–**	0.7	3.8	(1.8)	–
Interest rate swaps – held internally	**–**	**–**	**–**	**(4.8)**	–	–	–	(4.9)
Total	**–**	**1.6**	**(0.7)**	**(4.8)**	0.7	3.8	(1.8)	(4.9)

A. FUTURES

The Group's investment guidelines permit the use of futures which provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed income and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

As at 31 December, the Group had the following exposure to treasury futures:

	2015			2014		
As at 31 December	**Notional long $m**	**Notional short $m**	**Net notional long (short) $m**	Notional long $m	Notional short $m	Net notional long (short) $m
Treasury futures	**56.1**	**152.5**	**(96.4)**	89.1	169.9	(80.8)
Total	**56.1**	**152.5**	**(96.4)**	89.1	169.9	(80.8)

B. OPTIONS

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is $nil as at 31 December 2015 and 2014.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

C. FORWARD FOREIGN CURRENCY CONTRACTS

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt and/or insurance related currency exposures.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

	2015			2014		
As at 31 December	**Notional long $m**	**Notional short $m**	**Net notional long (short) $m**	Notional long $m	Notional short $m	Net notional long (short) $m
Canadian Dollar	**–**	**21.4**	**(21.4)**	0.4	20.7	(20.3)
Australian Dollar	**7.1**	**17.8**	**(10.7)**	10.0	26.3	(16.3)
Japanese Yen	**5.9**	**7.4**	**(1.5)**	5.1	5.1	–
British Pound	**10.4**	**8.6**	**1.8**	–	8.1	(8.1)
Malaysian Ringgit	**3.0**	**–**	**3.0**	3.7	–	3.7
Euro	**28.9**	**15.9**	**13.0**	43.2	26.4	16.8
Total	**55.3**	**71.1**	**(15.8)**	62.4	86.6	(24.2)

D. SWAPS

The Group's investment guidelines permit the use of interest rate swaps and credit default swaps which are traded primarily OTC. Swaps are recorded at estimated fair value at the end of each period with unrealised gains and losses recorded in the consolidated statement of comprehensive income.

Interest rate swaps are used to manage interest rate exposure, portfolio duration or capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio is not material as at 31 December 2015 and 2014. The notional amount of interest rate swaps held internally for the purposes of hedging the interest rate exposure on the Group's subordinated loan notes as at 31 December 2015 is $246.4 million (31 December 2014 – $252.3 million).

E. SWAPTIONS

The Group has the ability to use swaptions, options on interest rate swaps, to manage interest rate risk exposure and portfolio and yield curve duration. The Group, as the purchaser of a swaption, is subject to the credit risk of the counterparty but is only subject to market risk to the extent of the premium paid. As a swaption writer, the Group is not subject to credit risk but is subject to market risk, due to its obligation to make payments under the terms of the contract. These risks are mitigated through maximum allowable notional exposures as a percentage of the investment portfolio's estimated fair value. The estimated fair value of these instruments is $nil as at 31 December 2015 and 2014.

III. DEBT RISK

The Group has issued long-term debt as described in note 22. The LHL issued subordinated loan notes due in 2035 bear interest at a floating rate that is reset on a quarterly basis, plus a fixed margin of 3.70 per cent. The Group is subject to interest rate risk on the coupon payments of these subordinated loan notes. The Group has mitigated the interest rate risk on the LHL debt by entering into interest rate swap contracts as follows:

	Maturity date	Interest hedged
Subordinated loan notes $97.0 million	15 December 2035	100%
Subordinated loan notes €24.0 million	15 June 2035	100%

The interest rate swaps expire on 15 December 2020, therefore until 2020 the Group has no cash flow interest rate risk on the LHL issued subordinated loan notes due in 2035.

The senior unsecured notes maturing 1 October 2022 bear interest at a fixed rate of 5.70 per cent and therefore the Group is not exposed to interest rate risk on this long-term debt.

On the acquisition of Cathedral, the Group assumed subordinated loan notes as described in note 22. The Group is subject to interest rate risk on the coupon payment of this long-term debt. An increase of 100 basis points on the EURIBOR and LIBOR three-month deposit rates would result in an increase in the interest expense on long term debt for the Group of approximately $0.7 million on an annual basis.

IV. CURRENCY RISK

The Group underwrites from two locations, Bermuda and London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact income.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable, dividends payable and the euro denominated subordinated loan notes long-term debt liabilities discussed in note 22. See page 129 for a listing of the Group's open forward foreign currency contracts.

The Group's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	**190.8**	**40.3**	**17.8**	**18.5**	**24.4**	**291.8**
Accrued interest receivable	**6.5**	**–**	**–**	**–**	**–**	**6.5**
Investments	**1,706.3**	**17.0**	**32.0**	**–**	**18.0**	**1,773.3**
Inwards premiums receivable from insureds and cedants	**204.4**	**15.4**	**23.5**	**–**	**10.4**	**253.7**
Reinsurance assets	**106.1**	**7.2**	**2.7**	**–**	**0.8**	**116.8**
Other receivables	**35.5**	**1.8**	**–**	**–**	**0.5**	**37.8**
Investment in associate	**47.5**	**–**	**–**	**–**	**–**	**47.5**
Property, plant and equipment	**0.5**	**6.7**	**–**	**–**	**–**	**7.2**
Deferred acquisition costs	**68.4**	**5.6**	**7.1**	**0.4**	**5.7**	**87.2**
Intangible assets	**153.8**	**–**	**–**	**–**	**–**	**153.8**
Total assets as at 31 December 2015	**2,519.8**	**94.0**	**83.1**	**18.9**	**59.8**	**2,775.6**

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	**529.3**	**43.5**	**47.4**	**20.9**	**29.9**	**671.0**
Unearned premiums	**318.5**	**19.2**	**34.6**	**3.7**	**23.2**	**399.2**
Insurance contracts – other payables	**27.0**	**3.8**	**3.0**	**0.3**	**2.1**	**36.2**
Amounts payable to reinsurers	**24.0**	**1.8**	**0.6**	**–**	**0.2**	**26.6**
Deferred acquisition costs ceded	**0.3**	**–**	**–**	**–**	**–**	**0.3**
Other payables	**31.7**	**35.2**	**0.1**	**–**	**–**	**67.0**
Corporation tax payable	**0.8**	**1.0**	**–**	**–**	**–**	**1.8**
Deferred tax liability	**16.7**	**8.9**	**–**	**–**	**–**	**25.6**
Interest rate swap	**2.3**	**–**	**2.5**	**–**	**–**	**4.8**
Long-term debt	**284.4**	**–**	**37.9**	**–**	**–**	**322.3**
Total liabilities as at 31 December 2015	**1,235.0**	**113.4**	**126.1**	**24.9**	**55.4**	**1,554.8**

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	173.4	42.8	27.2	28.6	31.5	303.5
Accrued interest receivable	7.7	–	–	–	–	7.7
Investments	1,885.7	18.8	41.2	–	41.2	1,986.9
Inwards premiums receivable from insureds and cedants	263.5	15.9	27.6	0.2	9.0	316.2
Reinsurance assets	119.8	15.3	3.9	–	3.4	142.4
Other receivables	10.8	25.1	–	–	0.7	36.6
Corporation tax receivable	–	4.3	–	–	–	4.3
Investment in associate	52.7	–	–	–	–	52.7
Property, plant and equipment	0.3	8.8	–	–	–	9.1
Deferred acquisition costs	81.8	4.8	10.9	0.6	6.5	104.6
Intangible assets	153.8	–	–	–	–	153.8
Total assets as at 31 December 2014	2,749.5	135.8	110.8	29.4	92.3	3,117.8

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	550.1	51.9	65.6	43.3	41.7	752.6
Unearned premiums	379.6	20.2	48.4	4.8	26.1	479.1
Insurance contracts – other payables	34.8	1.4	2.2	0.3	2.1	40.8
Amounts payable to reinsurers	30.0	2.4	1.0	–	0.8	34.2
Deferred acquisition costs ceded	0.1	–	–	–	–	0.1
Other payables	46.5	36.8	0.1	–	0.1	83.5
Deferred tax liability	17.4	21.3	–	–	–	38.7
Interest rate swap	1.6	–	3.3	–	–	4.9
Long-term debt	284.4	–	42.2	–	–	326.6
Total liabilities as at 31 December 2014	1,344.5	134.0	162.8	48.4	70.8	1,760.5

The impact on net income of a proportional foreign exchange movement of 10.0 per cent up and 10.0 per cent down against the U.S. dollar at the year end spot rates would be an increase or decrease of $2.6 million (2014 – $3.8 million).

The 31 December 2014 losses and loss adjustment expenses included the equivalent of $21.0 million of Japanese Yen denominated insurance liabilities that were contained within the Group's outwards reinsurance programme which limited the Group's net liability to $30.0 million. The Group did not therefore hedge the foreign currency exposure in relation to these losses.

The Group uses forward foreign currency contracts for the purposes of managing currency exposures. See page 129 for details of the Group's open forward foreign currency contracts.

C. LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Group's main exposures to liquidity risk are with respect to its insurance and investment activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group can be exposed to daily calls on its available investment assets, principally to settle insurance claims.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Group's fixed income portfolio are as follows:

As at 31 December 2015	**Core $m**	**Core plus $m**	**Surplus $m**	**Total $m**
Less than one year	**58.0**	**93.0**	**24.5**	**175.5**
Between one and two years	**185.3**	**190.7**	**70.3**	**446.3**
Between two and three years	**96.6**	**102.8**	**35.9**	**235.3**
Between three and four years	**25.1**	**28.3**	**53.3**	**106.7**
Between four and five years	**21.3**	**46.5**	**96.2**	**164.0**
Over five years	**21.3**	**11.8**	**132.5**	**165.6**
Asset backed and mortgage backed securities	**45.9**	**128.9**	**133.5**	**308.3**
Total fixed income securities	**453.5**	**602.0**	**546.2**	**1,601.7**

As at 31 December 2014	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	103.7	58.9	43.6	206.2
Between one and two years	168.1	117.1	42.4	327.6
Between two and three years	200.0	80.6	75.5	356.1
Between three and four years	20.9	19.6	65.3	105.8
Between four and five years	21.9	29.1	97.5	148.5
Over five years	5.9	9.5	243.8	259.2
Asset backed and mortgage backed securities	143.8	89.3	181.8	414.9
Total fixed income securities	664.3	404.1	749.9	1,818.3

The maturity profile of the financial liabilities of the Group is as follows:

		Years until liability becomes due – undiscounted values				
As at 31 December 2015	**Balance sheet $m**	**Less than one $m**	**One to three $m**	**Three to five $m**	**Over five $m**	**Total $m**
Losses and loss adjustment expenses	**671.0**	**269.5**	**246.4**	**88.6**	**66.5**	**671.0**
Insurance contracts – other payables	**36.2**	**33.1**	**3.1**	**–**	**–**	**36.2**
Amounts payable to reinsurers	**26.6**	**26.6**	**–**	**–**	**–**	**26.6**
Other payables	**67.0**	**67.0**	**–**	**–**	**–**	**67.0**
Interest rate swap	**4.8**	**2.0**	**2.3**	**0.5**	**–**	**4.8**
Long-term debt	**322.3**	**14.0**	**33.8**	**36.5**	**521.3**	**605.6**
Total	**1,127.9**	**412.2**	**285.6**	**125.6**	**587.8**	**1,411.2**

		Years until liability becomes due – undiscounted values				
As at 31 December 2014	Balance sheet $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	752.6	299.0	270.0	102.2	81.4	752.6
Insurance contracts – other payables	40.8	30.5	9.6	0.7	–	40.8
Amounts payable to reinsurers	34.2	34.2	–	–	–	34.2
Other payables	83.5	83.5	–	–	–	83.5
Interest rate swap	4.9	2.5	2.2	0.4	(0.2)	4.9
Long-term debt	326.6	13.2	35.3	38.0	546.6	633.1
Total	1,242.6	462.9	317.1	141.3	627.8	1,549.1

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The prepayment options for the Group's long-term debt are discussed in note 22. While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

The Group manages its liquidity risks via its investment strategy to hold high quality, highly liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core portfolio with its subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlooks and reallocates assets as deemed necessary.

D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed income investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed income portfolio is mitigated through the Group's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 10.0 per cent of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt should exceed 5.0 per cent of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed income securities issued by the U.S. government and government agencies and other highly rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and settling of unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral to be posted for positions which have accrued gains by amounts exceeding predetermined thresholds.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security, as discussed on page 120.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2015	**Cash and fixed income securities $m**	**Other investments $m**	**Inwards premiums receivable and other receivables $m**	**Reinsurance recoveries $m**
AAA	**302.8**	–	–	–
AA+, AA, AA-	**744.0**	–	–	–
A+, A, A-	**502.2**	–	**81.3**	**77.5**
BBB+, BBB, BBB-	**232.0**	–	–	–
Other[1]	**112.5**	–	**212.9**	**6.4**
Total	**1,893.5**	–	**294.2**	**83.9**

(1) Reinsurance recoveries classified as "other" include $1.5 million of reserves that are fully collateralised.

As at 31 December 2014	Cash and fixed income securities $m	Other investments $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	385.9	–	–	–
AA+, AA, AA-	765.8	–	–	–
A+, A, A-	642.4	0.7	85.0	103.0
BBB+, BBB, BBB-	193.1	–	–	0.1
Other[1]	134.6	–	273.1	9.3
Total	2,121.8	0.7	358.1	112.4

(1) Reinsurance recoveries classified as "other" include $4.2 million of reserves that are fully collateralised.

The two counterparties to the Group's long-term debt interest rate swaps are currently rated A and BBB+ by S&P.

The following table shows inwards premiums receivable that are past due but not impaired:

	2015 $m	2014 $m
Less than 90 days past due	**16.1**	23.6
Between 91 and 180 days past due	**5.6**	6.7
Over 180 days past due	**6.4**	3.2
Total	**28.1**	33.5

Provisions of $2.2 million (2014 – $1.2 million) have been made for impaired or irrecoverable balances and $1.0 million (2014 – $1.0 million) was charged to the consolidated statement of comprehensive income in respect of bad debts. No provisions have been made against balances recoverable from reinsurers.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modeled directly within BLAST. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the CRO's quarterly report to the LHL Board and entity boards and the Cathedral Risk Committee reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Group's Internal Audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is audited quarterly. Frequency of audits for all other areas varies from quarterly at the most frequent to a minimum of once every three years, on a rotational basis.

F. STRATEGIC RISK

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required; and
- the risks of succession planning, staff retention and key man risks.

The Group has maintained elevated risk scores in the risk register relating to the integration of Cathedral into the Group's financial and actuarial reporting, but these will be reviewed in 2016.

I. BUSINESS PLAN RISK

The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation of and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- feedback to senior management via the daily UMCC and fortnightly RRC meetings.

II. CAPITAL MANAGEMENT RISK

The total capital of the Group is as follows:

As at 31 December	2015 $m	2014 $m
Shareholders' equity	**1,220.3**	1,356.8
Long-term debt	**322.3**	326.6
Total capital	**1,542.6**	1,683.4
Intangible assets	**(153.8)**	(153.8)
Total tangible capital	**1,388.8**	1,529.6

Risks associated with the effectiveness of the Group's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the Cathedral management team regarding Lloyd's capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in industry groups such as the International Underwriters Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal and regulatory capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board of Directors.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. These approaches are used by management in decision making. The operating entities also conduct capital requirement assessments under internal measures and local regulatory requirements. Refer to note 29 for a discussion of the regulatory capital requirements of the Group's operating entities.

The Group's aim is to provide its shareholders with an RoE of 13.0 per cent in excess of a risk-free rate over the insurance cycle. The return is generated within a broad framework of risk parameters. The return is measured by management in terms of the IRR of the increase in FCBVS in the period adjusted for dividends accrued. This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs – adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

IRR achieved is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2005[1]	(3.2)	n/a	(3.2)
31 December 2006	17.8	14.0	14.0
31 December 2007	31.4	22.4	50.3
31 December 2008	7.8	17.9	63.7
31 December 2009	26.5	19.8	105.8
31 December 2010	23.3	20.3	152.4
31 December 2011	13.4	19.5	191.2
31 December 2012	16.7	19.2	242.7
31 December 2013	18.9	19.2	308.0
31 December 2014[2]	13.9	18.9	375.3
31 December 2015[2]	10.9	18.6	449.1

(1) The returns shown are for the period from date of incorporation, 12 October 2005 to 31 December 2005.

(2) The annual return was 13.5 per cent (2014 – 14.7 per cent), after adjusting for the impacts of warrants.

IRR achieved in excess of the three-month treasury yield is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2005[1]	(3.4)	n/a	(3.4)
31 December 2006	13.0	9.2	9.2
31 December 2007	26.9	17.8	40.8
31 December 2008	6.4	14.3	52.7
31 December 2009	26.4	17.1	94.6
31 December 2010	23.2	18.2	141.1
31 December 2011	13.3	17.7	179.9
31 December 2012	16.6	17.7	231.3
31 December 2013	18.9	17.9	296.6
31 December 2014[2]	13.9	17.7	363.8
31 December 2015[2]	10.9	17.5	437.5

(1) The returns shown are for the period from date of incorporation, 12 October 2005 to 31 December 2005.

(2) The annual return was 13.5 per cent (2014 – 14.7 per cent), after adjusting for the impacts of warrants.

III. RETENTION RISK

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts; and
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon, and training schemes.

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 at Level 29, 20 Fenchurch Street, London, EC3M 3BY, United Kingdom.

The consolidated financial statements for the year ended 31 December 2015 include the Company's subsidiary companies, the Company's interest in associates, and the Group's share of Syndicate assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 27.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. These segments are therefore deemed to be the Group's operating segments for the purposes of segment reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 116 to 119. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

2. SEGMENTAL REPORTING CONTINUED

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2015	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m
Gross premiums written 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 exclude the U.S. and Canada.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2014	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m
Gross premiums written by geographical region						
U.S. and Canada	92.3	12.5	–	–	116.9	221.7
Worldwide offshore	0.1	220.2	67.0	0.1	–	287.4
Worldwide, including the U.S. and Canada[1]	33.4	3.7	–	53.1	82.3	172.5
Europe	34.6	0.9	–	–	24.1	59.6
Far East	33.8	(0.1)	–	–	9.0	42.7
Worldwide, excluding the U.S. and Canada[2]	14.4	0.4	–	–	8.4	23.2
Middle East	8.0	0.5	–	–	1.0	9.5
Rest of world	46.4	1.3	0.7	–	42.6	91.0
Total	263.0	239.4	67.7	53.2	284.3	907.6
Outwards reinsurance premiums	(34.3)	(47.8)	(9.7)	(8.1)	(64.9)	(164.8)
Change in unearned premiums	(9.9)	(22.5)	(0.3)	4.7	(9.0)	(37.0)
Change in unearned premiums ceded	2.7	0.6	–	2.8	3.7	9.8
Net premiums earned	221.5	169.7	57.7	52.6	214.1	715.6
Insurance losses and loss adjustment expenses	(12.0)	(55.2)	(27.6)	(32.9)	(110.2)	(237.9)
Insurance losses and loss adjustment expenses recoverable	(9.6)	13.3	–	–	7.7	11.4
Insurance acquisition expenses	(33.4)	(53.1)	(17.9)	(9.7)	(47.7)	(161.8)
Insurance acquisition expenses ceded	7.2	0.7	0.2	0.1	0.2	8.4
Net underwriting profit	173.7	75.4	12.4	10.1	64.1	335.7
Net unallocated income and expenses						(109.2)
Profit before tax						226.5
Net loss ratio	9.8%	24.7%	47.8%	62.5%	47.9%	31.7%
Net acquisition cost ratio	11.8%	30.9%	30.7%	18.3%	22.2%	21.4%
Expense ratio	–	–	–	–	–	15.6%
Combined ratio	21.6%	55.6%	78.5%	80.8%	70.1%	68.7%

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

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

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the year ended 31 December 2015	**Net investment income and net other investment (losses) income[1] $m**	**Net realised (losses) gains and impairments $m**	**Net change in unrealised gains/losses on AFS $m**	**Total investment return excluding foreign exchange $m**	**Net foreign exchange (losses) gains $m**	**Total investment return including foreign exchange $m**
Fixed income securities – AFS	**28.8**	**(1.8)**	**(11.4)**	**15.6**	**(9.2)**	**6.4**
Fixed income 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.

For the year ended 31 December 2014	Net investment income and net other investment (losses) income[1] $m	Net realised (losses) gains and impairments $m	Net change in unrealised gains/losses on AFS $m	Total investment return excluding foreign exchange $m	Net foreign exchange (losses) gains $m	Total investment return including foreign exchange $m
Fixed income securities – AFS	27.7	2.7	(1.8)	28.6	(9.5)	19.1
Fixed income securities – at FVTPL	1.6	–	–	1.6	–	1.6
Equity securities – AFS	0.5	(0.4)	(0.4)	(0.3)	–	(0.3)
Hedge funds – at FVTPL	2.1	–	–	2.1	–	2.1
Other investments	(2.3)	(8.2)	–	(10.5)	1.9	(8.6)
Cash and cash equivalents	0.4	–	–	0.4	(0.6)	(0.2)
Total investment return	30.0	(5.9)	(2.2)	21.9	(8.2)	13.7

(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 $2.4 million (2014 – $0.1 million) recognised on fixed income securities and $0.5 million (2014 – $0.2 million) recognised on equity securities held by the Group.

Refer to page 128 in the risk disclosures section for the estimated fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised (losses) gains and impairments.

Included in investment income is $3.2 million (2014 – $5.7 million) of investment management, accounting and custodian fees.

4. NET INSURANCE ACQUISITION EXPENSES

	2015 $m	2014 $m
Insurance acquisition expenses	**130.8**	177.6
Amortisation of value of in-force business acquired	**–**	15.0
Changes in deferred insurance acquisition expenses	**17.4**	(30.8)
Insurance acquisition expenses ceded	**(2.2)**	(8.3)
Changes in deferred insurance acquisition expenses ceded	**0.2**	(0.1)
Total net insurance acquisition expenses	**146.2**	153.4

2014 included a portion of the amortisation expense relating to the value of in-force business acquired that was allocated to insurance acquisition expenses, in line with the run-off profile of that business.

5. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

	2015 $m	2014 $m
Depreciation on owned assets	**1.9**	2.1
Operating lease charges	**3.4**	3.8
Amortisation of value of in-force business	**–**	8.4
Auditors' remuneration		
– Group audit fees	**1.8**	1.7
– Other services	**0.1**	0.3
Total	**7.2**	16.3

During 2015, EY provided non-audit services in relation to taxation services. During 2014, EY provided non-audit services in relation to taxation services, capital management projects, Cathedral group restructuring and services pursuant to the KCML subscription and shareholders' agreement. All fees paid to the Group's auditors for non-audit services are approved by the Group's Audit Committee.

6. EMPLOYEE BENEFITS

	2015 $m	2014 $m
Wages and salaries	**30.4**	27.4
Pension costs	**3.1**	3.0
Bonus and other benefits	**30.8**	23.7
Total cash compensation	**64.3**	54.1
RSS – ordinary	**7.3**	12.6
RSS – bonus deferral	**2.1**	3.2
RSS – Cathedral acquisition grant	**6.4**	7.5
Total equity based compensation	**15.8**	23.3
Total employee benefits	**80.1**	77.4

EQUITY BASED COMPENSATION

The Group's primary equity based compensation scheme is its RSS. Previously the Group also issued options to employees pursuant to an LTIP, which has been closed to further issues, and also authorised and issued warrants at its formation in 2005 and 2006. Further details of the warrants can be found in note 24.

6. EMPLOYEE BENEFITS CONTINUED

RSS

On 22 December 2010, LHL's shareholders, in a Special General Meeting, voted in favour of the LHL Board's proposal to modify the existing RSS awards programme to a nil-cost options programme. The modification introduced an exercise period of ten years from the grant date for all outstanding and future RSS grants. Previously, all awards were automatically converted to shares on the vesting date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2015 and 2014:

Assumptions	2015	2014
Dividend yield	**0.0%**	0.0%
Expected volatility[1]	**19.5%**	22.0%
Risk-free interest rate[2]	**0.7%**	1.0%
Expected average life of options	**3 years**	3 years
Share price	**$9.87**	$12.16

(1) The expected volatility of LHL and comparator companies' share prices are calculated based on the movement in the share prices over a period prior to the grant date, equal in length to the expected life of the award.

(2) The risk-free interest rate is consistent with three- year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0 per cent per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – ORDINARY

The ordinary RSS options vest after a three-year period and are dependent on certain performance criteria. A maximum of 75.0 per cent of the ordinary RSS options will vest only on the achievement of an LHL RoE in excess of a required amount. A maximum of 25.0 per cent of the ordinary RSS options will vest only on the achievement of an LHL TSR in excess of the 75th percentile of the TSR of a predefined comparator group. For all RSS options issued in 2012 and earlier the performance criteria was split as 50.0 per cent relating to RoE and 50.0 per cent relating to TSR. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Number of employee restricted stock	Number of non-employee restricted stock	Total number of restricted stock
Outstanding as at 31 December 2013	4,320,761	408,827	4,729,588
Granted	1,157,761	–	1,157,761
Exercised	(1,894,668)	(186,994)	(2,081,662)
Forfeited	(166,857)	–	(166,857)
Lapsed	(262,781)	–	(262,781)
Outstanding as at 31 December 2014	3,154,216	221,833	3,376,049
Granted	**1,529,507**	**–**	**1,529,507**
Exercised	**(662,345)**	**(128,839)**	**(791,184)**
Forfeited	**(223,893)**	**–**	**(223,893)**
Lapsed	**(525,348)**	**(92,994)**	**(618,342)**
Outstanding as at 31 December 2015	**3,272,137**	**–**	**3,272,137**
Exercisable as at 31 December 2015	**956,911**	**–**	**956,911**

	2015			2014		
	Employee restricted stock	**Non-employee restricted stock**	**Total restricted stock**	Employee restricted stock	Non-employee restricted stock	Total restricted stock
Weighted average remaining contractual life	**7.9 years**	**–**	**7.9 years**	7.9 years	6.8 years	7.9 years
Weighted average fair value at date of grant during the year	**$9.78**	**–**	**$9.78**	$12.25	–	$12.25
Weighted average share price at date of exercise during the year	**$9.98**	**$9.86**	**$9.97**	$11.35	$10.66	$11.29

RSS – BONUS DEFERRAL

The bonus deferral RSS options vesting periods range from one to three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Number of employee restricted stock	**Number of non-employee restricted stock**	**Total number of restricted stock**
Outstanding as at 31 December 2013	355,221	24,921	380,142
Granted	278,608	–	278,608
Exercised	(266,228)	(11,183)	(277,411)
Forfeited	(3,991)	–	(3,991)
Outstanding as at 31 December 2014	363,610	13,738	377,348
Granted	**268,738**	**–**	**268,738**
Exercised	**(170,844)**	**(11,183)**	**(182,027)**
Forfeited	**(26,229)**	**–**	**(26,229)**
Outstanding as at 31 December 2015	**435,275**	**2,555**	**437,830**
Exercisable as at 31 December 2015	**60,882**	**–**	**60,882**

	2015			2014		
	Employee restricted stock	**Non-employee restricted stock**	**Total restricted stock**	Employee restricted stock	Non-employee restricted stock	Total restricted stock
Weighted average remaining contractual life	**8.0 years**	**7.2 years**	**8.0 years**	8.4 years	7.6 years	8.4 years
Weighted average fair value at date of grant during the year	**$9.69**	**–**	**$9.69**	$12.14	–	$12.14
Weighted average share price at date of exercise during the year	**$10.08**	**$9.96**	**$10.08**	$11.40	$11.08	$11.39

6. EMPLOYEE BENEFITS CONTINUED

RSS – CATHEDRAL ACQUISITION

The Cathedral acquisition RSS options vesting periods range from three to five years and are dependent on certain performance criteria. A maximum of 75.0 per cent of the Cathedral acquisition RSS options will vest only on the achievement of a Cathedral combined ratio below a required amount. A maximum of 25.0 per cent of the Cathedral acquisition RSS options will vest only on the achievement of an LHL RoE in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. The awards are not exercisable as at 31 December 2015.

	Total number of restricted stock
Outstanding as at 31 December 2015 and 2014	**2,307,157**

	Total restricted stock
Weighted average remaining contractual life	**7.9 years**
Weighted average fair value at date of grant	**$13.01**

MANAGEMENT TEAM ORDINARY WARRANTS

Ordinary warrants were all fully vested by 31 December 2008 and expired ten years from the date of issue on 16 December 2015. The fair value of all ordinary warrants granted was $2.62 per warrant. Ordinary warrants granted and exercised were:

	Number	Weighted average exercise price
Outstanding as at 31 December 2013	6,184,399	$4.64
Exercised	(5,625,217)	$4.63
Outstanding as at 31 December 2014	559,182	$4.72
Exercised	**(559,182)**	**$4.72**
Outstanding and exercisable as at 31 December 2015	**–**	**–**

	2015	2014
Weighted average remaining contractual life	**–**	1.0 year
Weighted average share price at date of exercise during the year	**$9.96**	$10.55

MANAGEMENT TEAM PERFORMANCE WARRANTS

Performance warrants were all fully vested by 31 December 2009 and expired ten years from the date of issue on 16 December 2015. Vesting was dependent on achieving certain performance criteria. The fair value of all warrants granted was $2.62 per warrant. The exercise price of warrants was automatically adjusted for dividends declared prior to their vesting dates.

Performance warrants granted and outstanding are:

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

	2015	2014
Weighted average remaining contractual life	**–**	1.0 year
Weighted average share price at date of exercise during the year	**$9.96**	$11.07

Refer to note 24 for further disclosure on non-management warrants outstanding.

7. FINANCING COSTS

	2015 $m	2014 $m
Interest expense on long-term debt	**15.1**	15.5
Net losses on interest rate swaps	**2.5**	7.4
Other financing costs	**0.8**	0.9
Total	**18.4**	23.8

Refer to note 22 for details of long-term debt and financing arrangements.

8. TAX CHARGE

BERMUDA

LHL, LICL and LUK have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

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

Tax credit	2015 $m	2014 $m
Corporation tax charge for the period	**2.3**	0.4
Adjustments in respect of prior period corporation tax	**(0.4)**	0.2
Deferred tax credit for the period	**(7.9)**	(2.9)
Tax rate change adjustment	**(0.8)**	(0.8)
Adjustments in respect of prior period deferred tax	**(3.2)**	–
Total tax credit	**(10.0)**	(3.1)

Tax reconciliation	2015 $m	2014 $m
Profit before tax	**171.7**	226.5
UK corporation tax at 20.3% (2014 – 21.5%)	**34.8**	48.7
Non-taxable income	**(41.1)**	(59.8)
Adjustments in respect of prior period	**(3.6)**	0.2
Differences related to equity based compensation	**0.4**	(8.5)
Other expense permanent differences	**1.7**	2.2
Tax rate change adjustment	**(0.8)**	(0.8)
Unused tax losses not recognised for deferred tax	**–**	14.9
Utilisation of tax losses previously unrecognised for deferred tax	**(1.4)**	–
Total tax credit	**(10.0)**	(3.1)

Due to the different taxpaying jurisdictions throughout the Group, the current tax credit as a percentage of the Group's profit before tax is 5.8 per cent (2014 – 1.4 per cent).

For the years ended 31 December, 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 varies from the cumulative expense at the reporting date.

Tax (credit) charge in other reserves	2015 $m	2014 $m
Deferred tax (credit) charge	**(0.1)**	4.4
Total tax (credit) charge in other reserves	**(0.1)**	4.4

Refer to note 10 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive (loss) income within shareholders' equity.

9. CASH AND CASH EQUIVALENTS

	2015 $m	2014 $m
Cash at bank and in hand	**131.7**	210.6
Cash equivalents	**160.1**	92.9
Total cash and cash equivalents	**291.8**	303.5

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Refer to note 22 for the cash and cash equivalent balances on deposit as collateral.

10. INVESTMENTS

As at 31 December 2015	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value $m
Fixed income securities – AFS				
– Short-term investments	**20.6**	**–**	**–**	**20.6**
– Fixed income 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 income securities – AFS	**1,597.7**	**4.5**	**(25.3)**	**1,576.9**
Fixed income 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**

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

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

	2015 $m	2014 $m
Unrealised gains	**6.1**	12.5
Unrealised losses	**(27.1)**	(21.8)
Net foreign exchange losses on fixed income – AFS	**10.4**	10.3
Tax provision	**0.1**	(0.2)
Accumulated other comprehensive (loss) income	**(10.5)**	0.8

Fixed income maturities are presented in the risk disclosures section on page 133. Refer to note 22 for the investment balances in trusts in favour of ceding companies and on deposit as collateral.

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

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.

10. INVESTMENTS CONTINUED

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using 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 and certain derivatives such as:

- Fixed income funds;
- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency debt;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Bank loans;
- Corporate bonds; and
- OTC derivatives, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and swaptions.

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. The Group classifies hedge funds as Level (iii) assets as the valuation technique incorporates both observable and unobservable inputs.

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

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 31 December 2015	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed income securities – AFS				
– Short-term investments	**10.9**	**9.7**	**–**	**20.6**
– Fixed income 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 income securities – AFS	**404.2**	**1,172.7**	**–**	**1,576.9**
Fixed income 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**

10. INVESTMENTS CONTINUED

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

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

The table below analyses the movements in hedge funds classified as Level (iii) investments:

	Hedge funds $m
As at 31 December 2013	–
Purchases	150.0
Total net gains recognised in profit or loss	2.1
As at 31 December 2014	152.1
Purchases	**18.1**
Sales	**(12.9)**
Total net losses recognised in profit or loss	**(1.3)**
As at 31 December 2015	**156.0**

11. INTERESTS IN STRUCTURED ENTITIES

A. CONSOLIDATED STRUCTURED ENTITIES

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

B. UNCONSOLIDATED STRUCTURED ENTITIES IN WHICH THE GROUP HAS AN INTEREST

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2015, the Group's total interest in unconsolidated structured entities was $511.8 million (31 December 2014 – $619.7 million). The Group does not sponsor any of the unconsolidated structured entities.

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

As at 31 December 2015	**Investments $m**	**Interest in associate $m**	**Total $m**
Fixed income securities			
– 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**
Total fixed income securities	**308.3**	**–**	**308.3**
Investment funds			
– Hedge funds	**156.0**	**–**	**156.0**
Total investment funds	**156.0**	**–**	**156.0**
Specialised investment vehicles			
– KHL (see note 17)	**–**	**47.5**	**47.5**
Total	**464.3**	**47.5**	**511.8**

As at 31 December 2014	Investments $m	Interest in associate $m	Total $m
Fixed income securities			
– Asset backed securities	184.1	–	184.1
– U.S. government agency mortgage backed securities	168.0	–	168.0
– Non-agency mortgage backed securities	20.8	–	20.8
– Agency commercial mortgage backed securities	2.4	–	2.4
– Non-agency commercial mortgage backed securities	39.6	–	39.6
Total fixed income securities	414.9	–	414.9
Investment funds			
– Hedge funds	152.1	–	152.1
Total investment funds	152.1	–	152.1
Specialised investment vehicles			
– KHL (see note 17)	–	52.7	52.7
Total	567.0	52.7	619.7

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

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the consolidated balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosure for these financial instruments and other investments is provided on pages 123 to 135. The total assets of these structured entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

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

11. INTERESTS IN STRUCTURED ENTITIES CONTINUED

As at 31 December 2015 the Group has a commitment of $50.0 million (31 December 2014 – $nil) in respect of a credit facility fund. The Group, via the fund, provides collateral for revolving credit facilities purchased at a discount from financial institutions and is at risk for its portion of any defaults on those revolving credit facilities. The Group's proportionate share of these revolving credit facilities purchased by the fund as at 31 December 2015 is $14.3 million (31 December 2014 – $nil), which currently remains unfunded. The maximum exposure to the credit facility fund is $50.0 million and as at 31 December 2015 there have been no defaults under this facility.

12. REINSURANCE ASSETS AND LIABILITIES

	Unearned premiums ceded $m	Amounts payable to reinsurers $m	Other receivables $m	Total $m
As at 31 December 2013	14.9	(30.9)	10.8	(5.2)
Net deferral for prior years	(14.9)	–	–	(14.9)
Net deferral for current year	24.7	–	–	24.7
Other	–	(3.3)	(5.5)	(8.8)
As at 31 December 2014	24.7	(34.2)	5.3	(4.2)
Net deferral for prior years	**(24.7)**	**–**	**–**	**(24.7)**
Net deferral for current year	**30.2**	**–**	**–**	**30.2**
Other	**–**	**7.6**	**(2.6)**	**5.0**
As at 31 December 2015	**30.2**	**(26.6)**	**2.7**	**6.3**

13. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at 31 December 2013	853.4	(183.0)	670.4
Net incurred losses for:			
Prior years	(40.8)	6.4	(34.4)
Current year	278.7	(17.8)	260.9
Exchange adjustments	(11.8)	0.8	(11.0)
Incurred losses and loss adjustment expenses	226.1	(10.6)	215.5
Net paid losses for:			
Prior years	265.8	(76.4)	189.4
Current year	61.1	(4.8)	56.3
Paid losses and loss adjustment expenses	326.9	(81.2)	245.7
As at 31 December 2014	752.6	(112.4)	640.2
Net incurred losses for:			
Prior years	**(101.4)**	**(6.3)**	**(107.7)**
Current year	**278.9**	**(15.5)**	**263.4**
Exchange adjustments	**4.9**	**0.8**	**5.7**
Incurred losses and loss adjustment expenses	**182.4**	**(21.0)**	**161.4**
Net paid losses for:			
Prior years	**210.0**	**(40.7)**	**169.3**
Current year	**54.0**	**(8.8)**	**45.2**
Paid losses and loss adjustment expenses	**264.0**	**(49.5)**	**214.5**
As at 31 December 2015	**671.0**	**(83.9)**	**587.1**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 120. 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 20.0 per cent increase in estimated losses would lead to a $134.2 million (2014 – $150.5 million) increase in gross loss reserves. There was no change to the Group’s reserving methodology during the year. The split of losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

	2015		2014	
As at 31 December	**$m**	**%**	$m	%
Outstanding losses	**286.0**	**42.6**	369.3	49.1
Additional case reserves	**162.1**	**24.2**	159.7	21.2
Losses incurred but not reported	**222.9**	**33.2**	223.6	29.7
Total	**671.0**	**100.0**	752.6	100.0

The Group’s reserve for unpaid losses and loss adjustment expenses as at 31 December 2015 and 2014 had an estimated duration of approximately two years.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of Cathedral in 2013, the Group assumed additional loss reserves relating to 2001 and subsequent years.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	Total $m
Gross Group losses											
Estimate of ultimate liability[1]											
At end of accident year	39.1	154.8	444.6	163.3	297.4	397.0	250.3	280.0	274.8	276.0	
One year later	34.7	131.2	417.4	107.8	209.4	371.9	350.4	259.8	226.7		
Two years later	32.0	103.5	377.5	73.1	204.2	447.0	338.8	224.0			
Three years later	27.6	94.8	345.1	66.0	235.8	450.4	326.9				
Four years later	27.2	83.5	340.8	89.1	229.4	460.0					
Five years later	24.4	81.0	355.6	81.7	231.4						
Six years later	24.0	87.6	350.9	72.9							
Seven years later	60.6	87.8	353.6								
Eight years later	58.6	86.6									
Nine years later	56.5										
Current estimate of cumulative liability	**56.5**	**86.6**	**353.6**	**72.9**	**231.4**	**460.0**	**326.9**	**224.0**	**226.7**	**276.0**	**2,314.6**
Paid	**(30.2)**	**(81.2)**	**(339.5)**	**(60.4)**	**(201.0)**	**(331.2)**	**(249.6)**	**(173.7)**	**(122.8)**	**(54.0)**	**(1,643.6)**
Total Group gross liability	**26.3**	**5.4**	**14.1**	**12.5**	**30.4**	**128.8**	**77.3**	**50.3**	**103.9**	**222.0**	**671.0**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2015.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	Total $m
Reinsurance											
Estimate of ultimate recovery[1]											
At end of accident year	–	3.6	40.7	1.6	33.8	56.2	48.9	9.9	17.8	15.3	
One year later	–	6.2	47.1	1.3	23.6	52.6	121.8	8.9	14.1		
Two years later	–	4.0	43.1	0.7	24.1	92.4	122.0	8.8			
Three years later	–	3.5	40.9	0.7	33.5	88.9	121.2				
Four years later	–	3.3	38.1	10.0	34.4	103.3					
Five years later	–	3.1	40.7	7.0	34.6						
Six years later	–	4.0	39.8	2.5							
Seven years later	25.1	4.1	40.4								
Eight years later	25.1	4.1									
Nine years later	24.7										
Current estimate of cumulative recovery	**24.7**	**4.1**	**40.4**	**2.5**	**34.6**	**103.3**	**121.2**	**8.8**	**14.1**	**15.3**	**369.0**
Paid	**(3.1)**	**(3.6)**	**(39.0)**	**(0.8)**	**(30.7)**	**(70.0)**	**(116.2)**	**(5.9)**	**(7.0)**	**(8.8)**	**(285.1)**
Total Group gross recovery	**21.6**	**0.5**	**1.4**	**1.7**	**3.9**	**33.3**	**5.0**	**2.9**	**7.1**	**6.5**	**83.9**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2015.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	Total $m
Net Group losses											
Estimate of ultimate liability[1]											
At end of accident year	39.1	151.2	403.9	161.7	263.6	340.8	201.4	270.1	257.0	260.7	
One year later	34.7	125.0	370.3	106.5	185.8	319.3	228.6	250.9	212.6		
Two years later	32.0	99.5	334.4	72.4	180.1	354.6	216.8	215.2			
Three years later	27.6	91.3	304.2	65.3	202.3	361.5	205.7				
Four years later	27.2	80.2	302.7	79.1	195.0	356.7					
Five years later	24.4	77.9	314.9	74.7	196.8						
Six years later	24.0	83.6	311.1	70.4							
Seven years later	35.5	83.7	313.2								
Eight years later	33.5	82.5									
Nine years later	31.8										
Current estimate of cumulative liability	**31.8**	**82.5**	**313.2**	**70.4**	**196.8**	**356.7**	**205.7**	**215.2**	**212.6**	**260.7**	**1,945.6**
Paid	**(27.1)**	**(77.6)**	**(300.5)**	**(59.6)**	**(170.3)**	**(261.2)**	**(133.4)**	**(167.8)**	**(115.8)**	**(45.2)**	**(1,358.5)**
Total Group net liability	**4.7**	**4.9**	**12.7**	**10.8**	**26.5**	**95.5**	**72.3**	**47.4**	**96.8**	**215.5**	**587.1**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2015.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2015 $m	2014 $m
2006 accident year and prior	**1.6**	1.8
2007 accident year	**1.1**	(0.3)
2008 accident year	**(2.1)**	3.6
2009 accident year	**4.1**	4.3
2010 accident year	**(3.5)**	5.7
2011 accident year	**17.1**	(6.1)
2012 accident year	**10.8**	11.1
2013 accident year	**35.4**	14.3
2014 accident year	**43.2**	–
Total favourable development	**107.7**	34.4

The favourable prior year development in 2015 arose primarily from general IBNR releases across most lines of business plus additional recoveries on our 2011 Thai flood losses. The favourable prior year development in 2014 arose primarily from IBNR releases due to lower than expected reported losses and releases on settlement of outstanding losses, offset by adverse development on prior accident year mid-sized marine and energy claims.

14. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

All receivables are considered current other than $53.8 million (2014 – $71.3 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Group's receivables.

15. DEFERRED ACQUISITION COSTS AND DEFERRED ACQUISITION COSTS CEDED

The reconciliation between opening and closing deferred acquisition costs incurred and ceded is shown below:

	Incurred $m	Ceded $m	Net $m
As at 31 December 2013	73.8	(0.2)	73.6
Net deferral during the year	30.8	0.1	30.9
As at 31 December 2014	104.6	(0.1)	104.5
Net deferral during the year	**(17.4)**	**(0.2)**	**(17.6)**
As at 31 December 2015	**87.2**	**(0.3)**	**86.9**

16. PROVISION FOR DEFERRED TAX

	2015 $m	2014 $m
Equity based compensation	**(4.6)**	(3.2)
Claims equalisation reserves	**14.6**	15.1
Syndicate underwriting profits	**3.3**	13.3
Syndicate participation rights	**13.6**	16.0
Other temporary differences	**0.6**	0.2
Tax losses carried forward	**(1.9)**	(2.7)
Net deferred tax liability	**25.6**	38.7

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2016 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of $14.1 million (2014 – $18.7 million) has not been recognised in relation to unused tax losses carried forward in LHL, because at present the related tax benefit is not expected to be realised through future taxable profits.

The UK government has announced its intention to legislate to reduce the rate of corporation tax to 19.0 per cent with effect from 1 April 2017 and to 18.0 per cent with effect from 1 April 2020. These rates have been reflected in the closing deferred tax position on the consolidated balance sheet.

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

17. INVESTMENT IN ASSOCIATE

The Group holds a 10.0 per cent interest in the preference shares of each segregated account of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2015, the carrying value of the Group's investment in KHL was $47.5 million (31 December 2014 – $52.7 million). The Group's share of comprehensive income for KHL for the period was $4.1 million (31 December 2014 – $4.7 million). Key financial information for KHL is as follows:

	2015 $m	2014 $m
Assets	**495.0**	551.2
Liabilities	**19.4**	24.6
Shareholders' equity	**475.4**	526.6
Gross premium earned	**73.4**	79.8
Comprehensive income	**41.2**	47.0

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

During the year ended 31 December 2014, AHL and SHL were placed into member's voluntary liquidation. The Group's share of comprehensive income for AHL for the period was $nil (31 December 2014 – $1.1 million). The Group's share of comprehensive income for SHL for the period was $nil (31 December 2014 – $0.1 million).

Refer to note 27 for details of transactions between the Group and its associates.

18. PROPERTY, PLANT AND EQUIPMENT

	2015 $m	2014 $m
Cost	**20.5**	19.3
Accumulated depreciation	**(13.3)**	(10.2)
Net book value	**7.2**	9.1

19. INTANGIBLE ASSETS

	Value of in-force business $m	**Syndicate participation rights $m**	**Goodwill $m**	**Total $m**
Net book value as at 31 December 2013	23.4	82.6	71.2	177.2
Amortisation charge for the year through insurance acquisition expenses	(15.0)	–	–	(15.0)
Amortisation charge for the year through other operating expenses	(8.4)	–	–	(8.4)
Net book value as at 31 December 2014	–	82.6	71.2	153.8
Net book value as at 31 December 2015[1]	**–**	**82.6**	**71.2**	**153.8**

(1) During the year ended 31 December 2015 the amortisation charge was $nil.

Syndicate participation rights and goodwill are deemed to have indefinite life as they are expected to have value in use that does not diminish over the course of time. Consequently, the carrying value is not amortised but tested annually for impairment. The value of in-force business was amortised over the remaining life of the acquired insurance contracts, which was approximately one year.

For the purpose of impairment testing, intangible assets are allocated to the Group's CGUs, in accordance with the manner in which management operates and monitors the business. The syndicate participation rights and goodwill have therefore been allocated to the Lloyd's CGU.

When testing for impairment, the recoverable amount of the Lloyd's CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a three- year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outwards reinsurance expenditure and investment returns. A discount rate of 6.8 per cent (31 December 2014 – 8.0 per cent) has been used to discount the projected pre tax cash flows, which reflects a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows of the unit beyond the three- year period is 2.0 per cent based on historical growth rates and management's best estimate of future growth rates.

The results of this exercise indicate that the recoverable amount exceeds the intangible assets' carrying value for both the syndicate participation rights and goodwill and would not be sensitive to any reasonably possible changes in assumptions. Therefore no impairment has been recognised during the year ended 31 December 2015 (31 December 2014 – $nil).

20. INSURANCE LIABILITIES

	Unearned premiums $m	Other payables $m	Total $m
As at 31 December 2013	442.1	28.9	471.0
Net deferral for prior years	(330.5)	–	(330.5)
Net deferral for current year	367.5	–	367.5
Other	–	11.9	11.9
As at 31 December 2014	479.1	40.8	519.9
Net deferral for prior years	**(345.1)**	–	**(345.1)**
Net deferral for current year	**265.2**	–	**265.2**
Other	–	**(4.6)**	**(4.6)**
As at 31 December 2015	**399.2**	**36.2**	**435.4**

21. INSURANCE, REINSURANCE AND OTHER PAYABLES

	2015 $m	2014 $m
Other payables	**64.8**	81.2
Accrued interest payable	**2.2**	2.3
Total other payables	**67.0**	83.5
Insurance contracts – other payables	**36.2**	40.8
Amounts payable to reinsurers	**26.6**	34.2
Total payables	**129.8**	158.5

Other payables include unsettled investment trades, accrued interest and other accruals. Insurance payables relate to amounts due to policyholders for profit commission, return premiums and claims payable. All payables are considered current. The carrying value approximates fair value due to the short-term nature of the payables.

22. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

LONG-TERM DEBT

On 5 October 2012, the Group issued $130.0 million 5.70 per cent senior unsecured notes due 2022 pursuant to a private offering to U.S. Qualified Institutional Buyers. Interest on the principal is payable semi-annually. The notes were listed and admitted to trading on the LSE on 16 October 2012.

On 15 December 2005, the Group issued $97.0 million and €24.0 million in aggregate principal amount of floating rate subordinated loan notes. The U.S. dollar subordinated loan notes are repayable on 15 December 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the three-month LIBOR rate and is payable quarterly. The loan notes were issued via a trust company. The Euro subordinated loan notes are repayable on 15 June 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the EURIBOR rate and is payable quarterly. On 21 October 2011, the CSX admitted to the official list the LHL U.S. dollar and Euro subordinated loan notes due 2035.

In 2013, the Group assumed loan notes, issued by CCHL and listed on the ISE, as part of the Cathedral acquisition. The loan notes acquired are set out as follows:

- €12.0 million floating rate subordinated loan note issued on 18 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above three-month EURIBOR;
- $10.0 million floating rate subordinated loan note issued on 26 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above three-month LIBOR;
- $25.0 million floating rate subordinated loan note issued on 13 May 2005 and repayable in June 2035, paying interest quarterly based on a set margin, 3.25 per cent, above three-month LIBOR; and
- $25.0 million floating rate subordinated loan note issued on 18 November 2005 and repayable in December 2035, paying interest quarterly based on a set margin, 3.25 per cent, above three-month LIBOR.

The Group has the option to redeem its senior unsecured notes and all of its subordinated loan notes, in whole or in part, prior to the respective maturity dates.

The carrying values of the notes are shown below:

As at 31 December	**2015** **$m**	2014 $m
Long-term debt $130.0 million	**130.0**	130.0
Long-term debt $97.0 million	**97.0**	97.0
Long-term debt €24.0 million	**26.2**	29.2
Long-term debt €12.0 million	**11.7**	13.0
Long-term debt $10.0 million	**10.0**	10.0
Long-term debt $25.0 million	**23.7**	23.7
Long-term debt $25.0 million	**23.7**	23.7
Carrying value	**322.3**	326.6

The Group is exposed to cash flow interest rate risk and currency risk on its long-term debt. Further information is provided in the risk disclosures section on page 130.

The fair value of the long-term debt is estimated as $328.8 million (2014 – $347.2 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy. The fair value is estimated by reference to similar financial instruments quoted in active markets.

The interest accrued on the long-term debt was $2.2 million (2014 – $2.3 million) at the balance sheet date and is included in other payables.

Refer to note 7 for details of the interest expense for the year included in financing costs.

INTEREST RATE SWAPS

The Group hedges a portion of its floating rate borrowings using interest rate swaps to transfer floating to fixed rate. These instruments are held at estimated fair value. Refer to the risk disclosures section from page 129 for further details. The Group has the right to net settle these instruments.

The net fair value position owed by the Group on the swap agreements is a $4.8 million liability (2014 – $4.9 million). Further information is provided on pages 127 and 129. Cash settlements are completed on a quarterly basis and the total of the next cash settlement in the first quarter of 2016 on these instruments is $0.6 million. The net impact from cash settlement and changes in estimated fair value are included in financing costs.

The interest rate swaps are held at estimated fair value, priced using observable market inputs, and are therefore classified as Level (ii) securities in the fair value hierarchy.

Refer to note 7 for the net impact from cash settlement and changes in estimated fair value included in financing costs.

22. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

LETTERS OF CREDIT

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral. LHL and LICL have the following facilities in place as at 31 December 2015 and 2014:

- a $350.0 million syndicated collateralised credit facility with a $75.0 million loan sub-limit that has been in place since 5 April 2012 and will expire on 5 April 2017. There was no outstanding debt under this facility as at 31 December 2015 and 2014; and
- a $50.0 million bi-lateral uncommitted LOC facility with Citibank Europe PLC as at 31 December 2014, which has now expired.

The existing 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 $350.0 million LOC facility include standard default and cross-default provisions which require certain covenants to be adhered to. These include the following:

- an A.M. Best financial strength rating of at least B++; and
- a maximum debt to capital ratio of 30.0 per cent, where the LHL subordinated loan notes are excluded from this calculation.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The following LOCs have been issued:

As at 31 December	**2015 $m**	2014 $m
Issued to third parties	**44.5**	31.8

LOCs are required to be fully collateralised.

SYNDICATE BANK FACILITIES

As at 31 December 2015 and 2014, Syndicate 2010 had in place an $80.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $40.0 million can be utilised by way of an LOC and up to $40.0 million by way of an RCF to assist Syndicate 2010's gross funding requirements.

As at 31 December 2015 and 2014, Syndicate 3010 had in place a $40.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 3010. Up to $20.0 million can be utilised by way of an LOC and up to $20.0 million by way of an RCF to assist Syndicate 3010's gross funding requirements.

The total combined maximum borrowings available to Syndicate 2010 and Syndicate 3010 under these facilities are $100.0 million and the total combined maximum that can be utilised by way of an LOC is $50.0 million and by way of an RCF is $50.0 million to assist in both Syndicates' gross funding requirements.

There are no balances outstanding under either of the syndicate bank facilities as at 31 December 2015 or 2014. The syndicate bank facilities are not available to the Group other than through its participation on the syndicates it supports.

TRUSTS AND RESTRICTED BALANCES

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at and for the years ended 31 December 2015 and 2014, LICL had been granted authorised or trusteed reinsurer status in all states. The MBRT is subject to the rules and regulations of the aforementioned states and the respective deed of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at and for the years ended 31 December 2015 and 2014, the Group was in compliance with all covenants under its trust facilities.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacities of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See note 29 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying the syndicate claims and expenses. See note 29 for more information regarding capital requirements for Syndicate 2010 and Syndicate 3010.

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

	2015			2014		
As at 31 December	**Cash and cash equivalents $m**	**Fixed income securities $m**	**Equity securities $m**	Cash and cash equivalents $m	Fixed income securities $m	Equity securities $m
MBRT accounts	**0.6**	**31.3**	**–**	0.3	31.3	–
In trust accounts for policyholders	**0.9**	**21.7**	**–**	0.7	22.9	–
In favour of LOCs	**7.4**	**43.4**	**–**	8.0	25.3	–
In favour of derivative contracts	**6.0**	**0.3**	**–**	1.5	1.7	–
FAL	**11.3**	**201.4**	**15.6**	6.9	167.5	15.8
Syndicate accounts	**9.4**	**85.8**	**–**	6.9	89.6	–
Total	**35.6**	**383.9**	**15.6**	24.3	338.3	15.8

23. SHARE CAPITAL

Authorised ordinary shares of $0.50 each	Number	$m
As at 31 December 2015 and 2014	3,000,000,000	1,500

Allocated, called up and fully paid	**Number**	**$m**
As at 31 December 2013	185,445,809	92.7
Shares issued	6,666,789	3.4
As at 31 December 2014	192,112,598	96.1
Shares issued	**9,229,320**	**4.6**
As at 31 December 2015	**201,341,918**	**100.7**

The new common shares issued during 2015 and 2014 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 2013	3,513,325	24.6	906,339	12.2	4,419,664	36.8
Shares distributed	(666,434)	(5.0)	(1,643,647)	(21.6)	(2,310,081)	(26.6)
Shares repurchased	2,498,433	25.0	–	–	2,498,433	25.0
Shares donated to trust	(2,394,377)	(16.8)	2,394,377	24.9	–	8.1
As at 31 December 2014	2,950,947	27.8	1,657,069	15.5	4,608,016	43.3
Shares distributed	**(1,109,421)**	**(9.7)**	**(1,354,535)**	**(12.5)**	**(2,463,956)**	**(22.2)**
Shares purchased by trust	**–**	**–**	**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**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2015 was 199,500,392 (31 December 2014 – 189,161,651).

23. SHARE CAPITAL CONTINUED

SHARE REPURCHASES

At the AGM held on 29 April 2015, the Group's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 20,034,191 shares, with such authority to expire on the conclusion of the 2016 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed.

During the year ended 31 December 2015 no shares were repurchased by the Group under the Share Repurchase Programme. During the year ended 31 December 2014 $25.0 million (2,498,433 shares) were repurchased by the Group at a weighted average share price of $10.02.

In 2015, the trustees of the EBT acquired 1,000,000 shares (2014 – nil) in accordance with the terms of the trust and distributed 1,354,535 (2014 – 1,643,647). There were no unsettled balances in relation to EBT purchases at either balance sheet date.

DIVIDENDS

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	21 Mar 2014	16 Apr 2014	21.1
Special	$0.20	21 Mar 2014	16 Apr 2014	42.1
Interim	$0.05	29 Aug 2014	24 Sep 2014	10.4
Special	$1.20	28 Nov 2014	19 Dec 2014	247.4
Final	$0.10	20 Mar 2015	15 Apr 2015	19.8
Special	$0.50	20 Mar 2015	15 Apr 2015	99.2
Interim	$0.05	28 Aug 2015	25 Sep 2015	9.9
Special	$0.95	27 Nov 2015	18 Dec 2015	188.6

24. OTHER RESERVES

Other reserves consist of the following:

	Contributed surplus $m	Equity based compensation $m	Total other reserves $m
As at 31 December 2013	633.1	67.8	700.9
Share premium reclassification	192.2	–	192.2
Purchase of shares from non-controlling interest	(0.6)	–	(0.6)
Distributed by trust	(28.3)	–	(28.3)
Shares donated to trust	8.1	–	8.1
Warrant exercises	22.4	(16.7)	5.7
RSS compensation	(9.8)	–	(9.8)
Equity based compensation – tax	–	(4.4)	(4.4)
Equity based compensation – exercises	21.3	(21.3)	–
Equity based compensation – expense	–	23.3	23.3
As at 31 December 2014	838.4	48.7	887.1
Purchase of shares by trust	**8.8**	**–**	**8.8**
Distributed by trust	**(17.2)**	**–**	**(17.2)**
Warrant exercises	**(4.2)**	**(9.6)**	**(13.8)**
Equity based compensation – tax	**–**	**0.1**	**0.1**
Equity based compensation – exercises	**13.8**	**(13.8)**	**–**
Equity based compensation – expense	**–**	**15.8**	**15.8**
As at 31 December 2015	**839.6**	**41.2**	**880.8**

Equity based compensation reserves represent the fair value, at the grant date, of all outstanding RSS options and management team ordinary and performance warrants held by employees, adjusted for any applicable performance conditions. Refer to note 6 for changes in the number of warrants held by employees.

Given the equity nature of the Founder warrants, they are recorded net within other reserves. Founder warrants exercised during the year ended 31 December 2015 were $39.4 million (31 December 2014 – $10.6 million). The changes in the number of warrants held by non-employees are as follows:

	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants
Outstanding and exercisable as at 31 December 2013	19,074,787	648,143	2,350,000
Exercised	(4,042,108)	–	–
Outstanding and exercisable as at 31 December 2014	15,032,679	648,143	2,350,000
Exercised	**(15,032,679)**	**(648,143)**	**(2,350,000)**
Outstanding and exercisable as at 31 December 2015	**–**	**–**	**–**

	2015	2014
Weighted average remaining contractual life	**–**	1.0 year
Weighted average share price at date of exercise during the year	**$9.98**	$11.25

25. COMMITMENTS

A. LEASE COMMITMENTS

The Group has payment obligations in respect of operating leases for certain items of office equipment and office space. Operating lease expenses for the year were $3.4 million (2014 – $3.8 million).

Future minimum lease payments under non-cancellable operating leases are as follows:

	2015 $m	2014 $m
Due in less than one year	**1.1**	1.1
Due between one and five years	**12.7**	11.4
Due in more than five years	**36.6**	41.2
Total	**50.4**	53.7

During 2014, the Group entered into a new lease agreement for larger office premises in the UK and assigned the leases in relation to the existing office premises in the UK to a third party who assumed responsibility for payments. Under the terms of the lease assignment the Group retains liability for lease payments in the event that the assignee and the assignee's guarantor fail to meet their obligations under the assignment agreements. The new lease agreement contains a break date of April 2029 and is guaranteed by the Group.

B. CREDIT FACILITY FUND

At as 31 December 2015 the Group has a commitment of $50.0 million (31 December 2014 – $nil) relating to a credit facility fund (refer to note 11).

26. EARNINGS PER SHARE

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

	2015 $m	2014 $m
Profit for the year attributable to equity shareholders of LHL	**181.1**	229.3

	2015 Number of shares	2014 Number of shares
Basic weighted average number of shares	**195,649,042**	185,558,086
Dilutive effect of RSS	**2,982,711**	2,442,255
Dilutive effect of warrants	**–**	10,112,990
Diluted weighted average number of shares	**198,631,753**	198,113,331

Earnings per share	2015	2014
Basic	**$0.93**	$1.24
Diluted	**$0.91**	$1.16

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares.

27. RELATED PARTY DISCLOSURES

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
LICL	General insurance business	Bermuda
KCML[2]	Insurance management services	Bermuda
KCMMSL	Support services	United Kingdom
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LUK	General insurance business	United Kingdom
LMSCL	Support services	Canada
CCIL[3]	Holding company	United Kingdom
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998	Lloyd's corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CCL 2000[4]	Holding company	United Kingdom
CCML[5]	Non trading	United Kingdom
CCSL	Support services	United Kingdom
CUL	Lloyd's managing agent	United Kingdom
Associate		
KHL	Holding company	Bermuda
Other controlled entities		
LHFT	Trust	United States
EBT	Trust	Jersey

(1) Unless otherwise stated, the Group owns 100 per cent of the ordinary share capital and voting rights in its subsidiaries listed below.

(2) 92.68 per cent owned by the Group.

(3) CCIL was dissolved on 4 February 2016.

(4) CCL 2000 was dissolved on 4 February 2016.

(5) CCML was dissolved on 4 February 2016.

27. RELATED PARTY DISCLOSURES CONTINUED

The Group has issued subordinated loan notes via a trust vehicle – LHFT, refer to note 22. The Group effectively has 100.0 per cent of the voting rights in LHFT. These rights are subject to the property trustee's obligations to seek the approval of the holders of LHFT's preferred securities in case of default and other limited circumstances where the property trustee would enforce its rights. While the ability of the Group to influence the actions of LHFT is limited by the trust agreement, LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes, is in essence controlled by the Group, and is therefore consolidated.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT and the ability of the Group to influence the actions of the EBT is limited by the trust deed, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes, is in essence controlled by the Group, and is therefore consolidated.

The Group has a Loan Facility Agreement (the 'Facility') with RBC Cees Trustee Limited, the trustee of the EBT. The Facility is an interest free revolving credit facility under which the trustee can request advances on demand, within the terms of the Facility, up to a maximum aggregate of $60.0 million. The Facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2015, the Group had made advances of $9.0 million (2014 – $5.0 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2015, the Group issued 1,000,000 shares to the EBT at a total par value of $0.5 million. During the year ended 31 December 2014, the Group donated 2,394,377 treasury shares to the EBT at the prevailing market rate. The total value of the treasury share donation was $24.9 million.

LICL holds $308.1 million (2014 – $346.1 million) of cash and cash equivalents and fixed income securities in trust for the benefit of LUK relating to intra-group reinsurance agreements.

During 2014, LHL and members of the Group's senior management team purchased shares in KCML from Richard Brindle, the Group's former CEO. The senior management team shareholding now represents a minority interest of 7.32 per cent. This investment represents the non-controlling interest listed in the Group's consolidated balance sheet.

KEY MANAGEMENT COMPENSATION

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

For the year ended 31 December	**2015** **$m**	2014 $m
Short-term compensation[1]	**4.1**	3.3
Equity based compensation	**3.3**	7.5
Directors' fees and expenses	**1.9**	2.2
Total	**9.3**	13.0

(1) The year ended 31 December 2014 includes a credit of $2.3 million relating to the decrease in the UK National Insurance contribution provision in respect of Richard Brindle's warrants. This is a result of the reduction in the Group's share price prior to the exercise of his warrants during 2014.

The table above for the year ended 31 December 2014 includes short-term compensation of $1.8 million and an equity based compensation charge of $3.5 million relating to the retirement of Richard Brindle. His retirement package also included a cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that have been accrued on the RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within shareholders' equity.

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

TRANSACTIONS WITH ASSOCIATES

In relation to transactions with ARL, the following amounts were included in the consolidated statement of comprehensive income:

For the year ended	**2015 $m**	2014 $m
Consolidated statement of comprehensive income		
Outwards reinsurance premiums	–	0.6
Insurance loss and loss adjustment expenses recoverable	–	(6.9)
Insurance acquisition expenses ceded	–	6.8

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 year ended 31 December 2015, the Group recognised $12.9 million (31 December 2014 – $6.2 million) of service fees and profit commissions in other income in relation to this agreement.

During 2015, the Group committed an additional $23.5 million (31 December 2014 – $27.8 million) of capital to KHL. During 2015, KHL returned $32.8 million (31 December 2014 – $nil) of capital to the Group.

During 2014, AHL returned $33.5 million of capital to the Group and ARL paid a final profit commission to the Group in the amount of $6.7 million following a commutation of the Group's quota share agreement with ARL.

During 2014, SHL returned $12.2 million of capital to the Group and SRL paid a final profit commission to the Group in the amount of $3.0 million and was placed in to run-off and subsequently liquidated.

Refer to note 17 for further details on the Group's investment in associate.

28. NON-CASH TRANSACTIONS

During 2015, the Group issued new common shares to satisfy the exercises of warrants and future exercises of RSS in the amount of $4.6 million (31 December 2014 – $3.4 million); refer to note 23. On 25 June 2014, following shareholder approval on 30 April 2014, LHL transferred $192.2 million from share premium to contributed surplus. Refer to note 24 for further details.

29. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

The primary source of capital used by the Group is equity shareholders' funds and borrowings. As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

For LICL and LUK, these regulatory restrictions are based principally on the amount of premiums written and reserves for losses and loss adjustment expenses, subject to overall minimum solvency requirements. LICL and LUK's statutory capital and surplus are different from shareholders equity due to certain items that are capitalised under IFRS but expensed or have a different valuation basis for regulatory reporting, or are not admitted under insurance regulations.

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

	2015		2014	
As at 31 December	**LICL $m**	**LUK $m**	LICL $m	LUK $m
Statutory capital and surplus	**938.1**	**165.6**	1,009.5	182.2
Minimum required statutory capital and surplus	**128.9**	**35.5**	233.7	37.2

LICL is required to maintain a minimum liquidity ratio, whereby relevant assets, as defined in the regulations, must exceed 75.0 per cent of relevant liabilities. As at 31 December 2015 and 2014 the liquidity ratio was met. LICL is also required to perform various capital calculations under the BMA's regulatory framework. An assessment is made of LICL's capital needs and a target capital amount is determined. The BMA may require a further capital loading on the target capital amount in certain circumstances. The BMA considers that a decrease in capital below the target level represents a regulatory intervention point.

For LUK, various capital calculations are performed and an ICA is presented to the PRA. The PRA then considers the capital calculations and issues an ICG, reflecting the PRA's own view as to the level of capital required. The PRA considers that a decrease in an insurance company's capital below the level of its ICG represents a regulatory intervention point.

Solvency II, a new regulatory regime for (re)insurance in the European Economic Area, introduces a new basis for assessing capital. This assessment includes a market-consistent economic balance sheet and an SCR, using either an internal model or the standard formula. It will impact the Group, LUK and CCL (as part of Lloyd's) and is effective from 1 January 2016. The Group has implemented the new requirements and, as part of the preparatory phase, provided interim information on this basis to regulators in 2015. This information demonstrated that the Group and LUK were more than adequately capitalised for supervisory and regulatory purposes under Solvency II regulations.

The Group's underwriting capacity as a member of Lloyd's must be supported by providing a deposit in the form of cash, securities or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage. Solvency II internal models have been used to determine capital requirements for Syndicate 2010 and Syndicate 3010 based on the uSCR. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated uSCR, including the need to maintain the market's overall security rating. Any uplift by Lloyd's is added to the uSCR to produce the ECA and this is regarded as the minimum capital requirement for the business.

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirements, which are backed by FAL. For the 2016 calendar year the Group's initial FAL requirement was set at 56.8 per cent (2015 – 53.9 per cent) of underwriting capacity supported. Further adjustments can be made by Lloyd's to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has sufficient capital to meet its FAL requirement of £157.3 million as at 31 December 2015 (31 December 2014 – £149.3 million).

As at 31 December 2015 and 2014 the capital requirements of all the regulatory jurisdictions were met.

30. COMPARATIVE INFORMATION

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

31. SUBSEQUENT EVENTS

DIVIDEND

On 17 February 2016 the Board of Directors declared the payment of an ordinary dividend of $0.10 per common share to shareholders of record on 26 February 2016, with a settlement date of 23 March 2016. The ordinary dividend payable will be approximately $19.8 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.

ANNUAL GENERAL MEETING

The Company's AGM is scheduled for 4 May 2016. Notice of this year's AGM and the form of proxy accompany this Annual Report. If you have any queries regarding the notice or return of the proxy please contact Chris Head, Company Secretary, at Lancashire Holdings Limited, 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom, Tel: + 44 (0) 20 7264 4000 and email: chris.head@lancashiregroup.com.

FURTHER INFORMATION

Lancashire Holdings Limited is registered in Bermuda under company number EC 37415 and has its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

Further information about the Group including this Annual Report, press releases and the Company's share price is available on our website at www.lancashiregroup.com. Please address any enquiries to info@lancashiregroup.com.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. 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 and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be 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 business 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 the Group may write; the Group's ability to successfully implement its business strategy during "soft" as well as "hard" markets; the premium rates which may be available at the time of such renewals within its targeted business lines; the possible low frequency of large events; potentially unusual loss frequency; the impact that the Group's future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than the Group's underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; increased competition from existing alternative capital providers and insurance linked funds and collateralised special purpose insurers and the related demand and supply dynamics as contracts come up for renewal; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in the Group's operating subsidiaries' rating with A.M.Best, Standard & Poor's, Moody's or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed income investments; the impact of swings in market interest rates and securities prices; 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 its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group conducts business; Lancashire or its 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 the UK government policy which impacts the CFC regime or other tax changes. Any estimates relating to loss events involve the exercise of considerable judgement and reflect a combination of ground-up evaluations, information available to date from brokers and insureds, market intelligence, initial and/or tentative loss reports and other sources. Judgements in relation to loss arising from natural catastrophe and man-made events are influenced by complex factors. The Group cautions as to the preliminary nature of the information used to prepare such estimates as subsequently available information may contribute to an increase in these types of losses.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the LSE) 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. 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 paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

GLOSSARY

ABS
Asset backed securities

ACTIVE UNDERWRITER
The individual at a Lloyd's syndicate with principal authority to accept insurance and reinsurance risk on behalf of the syndicate

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 common causes of loss

AGM
Annual General Meeting

AHL
Accordion Holdings Limited

AIM
A sub-market of the LSE

AIR
AIR Worldwide

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

ANP
All natural perils

ARL (ACCORDION)
Accordion Reinsurance Limited

BAM
Bathwater aggregate model

BEST LANCASHIRE ASSESSMENT OF SOLVENCY OVER TIME (BLAST)
The Group's economic internal capital model

BMA
Bermuda Monetary Authority

BOARD OF DIRECTORS
Unless otherwise stated refers to the LHL Board of Directors

BOOK VALUE PER SHARE (BVS)
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

CCHL
Cathedral Capital Holdings Limited

CCIL
Cathedral Capital (Investments) Limited

CCL
Cathedral Capital Limited

CCL 1998
Cathedral Capital (1998) Limited

CCL 1999
Cathedral Capital (1999) Limited

CCL 2000
Cathedral Capital (2000) Limited

CCML
Cathedral Capital Management Limited

CCSL
Cathedral Capital Services Limited

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

CEND
Confiscation, Expropriation, Nationalisation and Deprivation

CEO
Chief Executive Officer

CFC
Controlled Foreign Company

CFO
Chief Financial Officer

CGU
Cash generating unit

CMBS
Commercial mortgage backed securities

THE CODE
UK Corporate Governance Code published by the UK FRC

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

CONSOLIDATED FINANCIAL STATEMENTS
Includes the independent auditors' report, consolidated primary statements, accounting policies, risk disclosures and related notes

CONSOLIDATED PRIMARY STATEMENTS
Includes the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in shareholders' equity and the statement of consolidated cash flows

COVERHOLDER AT LLOYD'S
A coverholder is a company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it in accordance with the terms of a binding authority

CRO
Chief Risk Officer

CSX
Cayman Islands Stock Exchange

CUL
Cathedral Underwriting Limited

CUO
Chief Underwriting Officer

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 EARNINGS PER SHARE
Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity based compensation awards into common shares under the treasury stock method

DIVIDEND YIELD
Calculated by dividing the annual dividends per share by the share price on the last day of the given year

DURATION
Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights

The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

EARNINGS PER SHARE (EPS)
Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT
Lancashire Holdings Employee Benefit Trust

ECA
Economic Capital Assessment

ERM
Enterprise Risk Management

EURIBOR
The Euro Interbank Offered Rate

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

EY
Ernst & Young LLP

FACULTATIVE REINSURANCE
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FAL
Funds at Lloyd's

FCA
Financial Conduct Authority

FDIC CORPORATE BONDS
Corporate bonds protected by the Federal Deposit Insurance Corporation, an agency of the U.S. government

FPSO
Floating production storage and offloading

FRC
Financial Reporting Council

FSMA
The Financial Services and Markets Act 2000 (as amended from time to time)

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

G10
Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States

GOM
Gulf of Mexico

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

HMRC
Her Majesty's Revenue & Customs

ICA
Individual capital assessment

ICG
Individual capital guidance

ICM
International Care Ministries

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standard(s)

IGPIA
International Group of Protection and Indemnity Associations

ILS
Insurance linked securities

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

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

INTERNAL AUDIT CHARTER
Is a formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors / regulatory bodies of the internal audit function ("internal audit") with the Company and its subsidiaries

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

IRRC
Investment Risk and Return Committee

ISA
International Standards on Auditing (UK and Ireland)

ISE
Irish Stock Exchange

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 RE)
Kinesis Reinsurance I Limited

LANCASHIRE COMPANIES
Refers to the Group excluding Cathedral and Kinesis

LANCASHIRE FOUNDATION OR FOUNDATION
The Lancashire Foundation is a charity registered in England and Wales

LHFT
Lancashire Holdings Financing Trust I

LHL (THE COMPANY)
Lancashire Holdings Limited

LIBOR
London Interbank Offered Rate

LICL
Lancashire Insurance Company Limited

LIHL
Lancashire Insurance Holdings (UK) Limited

LIMSL
Lancashire Insurance Marketing Services Limited

LISL
Lancashire Insurance Services Limited

LISTING RULES
The listing rules made by the FCA under part VI of FSMA (as amended from time to time)

LLOYD'S
The Society of Lloyd's

LMSCL
Lancashire Management Services (Canada) Limited

LOC
Letter of credit

LOSSES
Demand by an insured for indemnity under an insurance contract

LSE
London Stock Exchange

LTIP
Long-term incentive plan

LUK
Lancashire Insurance Company (UK) Limited

M&A
Mergers and acquisitions

MBRT
Multi-beneficiary reinsurance trust

MBS
Mortgage backed securities

MOODY'S INVESTORS SERVICES (MOODY'S)
Moody's Corporation is the parent company of Moody's Investors Service, which provides credit ratings and research covering debt instruments and securities, and Moody's Analytics, which offers software, advisory services and research for credit and economic analysis and financial risk management

NAMES
An individual member underwriting with unlimited liability. Since 6 March 2003 no person has been admitted as a new member to underwrite on an unlimited basis

NAV
Net asset value

NBS
New Bridge Street (a trading name of Aon Hewitt Limited)

NET ACQUISITION COST RATIO
Ratio, in per cent, of net acquisition expenses to net premiums earned

NET LOSS RATIO
Ratio, in per cent, of net insurance losses to net premiums earned

NET OPERATING PROFIT
Profit before tax excluding realised gains and losses and foreign exchange gains and losses

NET PREMIUMS WRITTEN
Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

ORSA
Own Risk and Solvency Assessment

OTC
Over the counter

PML
Probable maximum loss

PRA
Prudential Regulation Authority

PRO-RATA/PROPORTIONAL
Reinsurance or insurance where the reinsurer or insurer shares a proportional part of the original premiums and losses of the reinsured or insured

RCF
Revolving credit facility

RDS
Realistic Disaster Scenarios

RETROCESSION
The reinsurance of a reinsurance account

RETURN ON EQUITY (RoE)
The IRR of the change in FCBVS in the period plus accrued dividends

RMBS
Residential mortgage backed securities

RMS
Risk Management Solutions

RPI
Renewal Price Index

RRC
Risk and Return Committee

RROC
Regulatory Reporting Oversight Committee

RSC
Reinsurance Security Committee

RSS
Restricted share scheme

SATEC
SATEC Underwriting, a privately owned insurance underwriting agency operating at national and international level in specialty classes of business. SATEC Underwriting is a coverholder at Lloyd’s

SCR
Solvency Capital Requirement

SHARP
Lancashire’s in house aggregation system

SHL
Saltire Holdings I Limited

SRL (SALTIRE)
Saltire Re I Limited

STANDARD & POOR’S (S&P)
Standard & Poor’s 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

THE SYNDICATES
Syndicate 2010 and 3010

TOTAL SHAREHOLDER RETURN (TSR)
The IRR of the increase/ (decrease) in share price in the period, measured in U.S. dollars, adjusted for dividends

TREATY REINSURANCE
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

UK
United Kingdom

UMCC
Underwriting and Marketing Conference Call

UNEARNED PREMIUMS
The portion of premium income that is attributable to periods after the balance sheet date that is deferred and amortised to future accounting periods

UNL
Ultimate net loss

USCR
Ultimate solvency capital requirement

U.S. GAAP
Accounting principles generally accepted in the United States

VALUE AT RISK (VAR)
A measure of the risk of loss of a specific portfolio of financial assets

CONTACT INFORMATION

HEAD OFFICE
Lancashire Holdings Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

REGISTERED OFFICE
Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

BERMUDA OFFICE
Lancashire Insurance Company Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

UK OFFICE
Lancashire Insurance Company
(UK) Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7264 4000
Fax: + 44 (0) 20 7264 4077

CATHEDRAL
Cathedral Capital Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Phone: + 44 (0) 20 7170 9000
Fax: + 44 (0) 20 7170 9001

KINESIS
Kinesis Capital Management Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11
Bermuda

Phone: + 1 441 278 8950
Fax: + 1 441 278 8951

LEGAL COUNSEL TO THE COMPANY

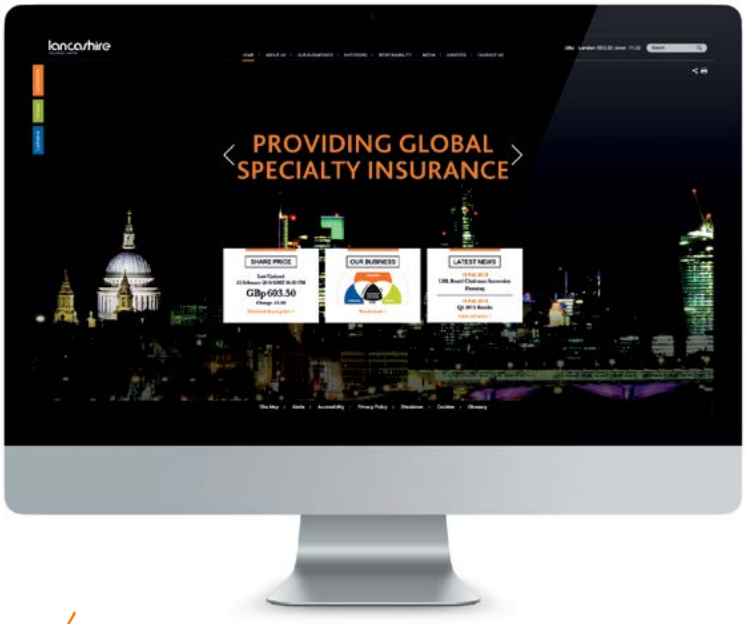
AS TO ENGLISH AND U.S. LAW:
Willkie Farr & Gallagher (UK) LLP
City Point
1 Ropemaker Street
London EC2Y 9AW
United Kingdom

AS TO BERMUDA LAW:
Conyers Dill & Pearman Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

AUDITORS
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY
United Kingdom

REGISTRAR
Capita Registrars (Jersey) Limited
PO Box 532
St Helier
Jersey JE4 5UW
Channel Islands

DEPOSITARY
Capita IRG Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom



Visit our corporate website for more information:
http://www.lancashiregroup.com

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C107262

This report is printed on Heaven 42 and Essential Offset which have been independently certified by the Forest Stewardship Council® and manufactured using materials from sustainable sources.

The inks used are all vegetable oil based.

Designed and produced by Black Sun Plc.

Printed at Principal Colour Ltd. ISO 14001 certified, Alcohol Free and FSC® Chain of Custody certified.

lancashire
HOLDINGS LIMITED

www.lancashiregroup.com