*UNDERWRITING*
COMES FIRST

*EFFECTIVELY BALANCE*
RISK AND RETURN

*OPERATE NIMBLY*
THROUGH THE CYCLE

lancashire
HOLDINGS LIMITED

*Unaudited condensed interim consolidated financial statements 30 June 2018*

# Contents

FINANCIAL HIGHLIGHTS

| | **30 June 2018** | 30 June 2017 | 31 December 2017 |
|---|---|---|---|
| Fully converted book value per share | **$5.70** | $6.23 | $5.48 |
| Return on equity - ytd | **5.9%** | 5.9% | (5.9)% |
| Return on tangible equity - ytd | **6.9%** | 6.8% | (6.8)% |

| | **Six months ended 30 June 2018** | Six months ended 30 June 2017 | Twelve months ended 31 December 2017 |
|---|---|---|---|
| **Highlights ($m)** | | | |
| Gross premiums written | **392.5** | 381.2 | 591.6 |
| Net premiums written | **234.0** | 239.8 | 398.0 |
| Profit (loss) before tax | **74.9** | 66.7 | (72.9) |
| Profit (loss) after tax* | **75.8** | 68.5 | (71.1) |
| Comprehensive income (loss)* | **64.4** | 74.6 | (66.2) |
| **Per share data** | | | |
| Diluted earnings (loss) per share | **$0.38** | $0.34 | ($0.36) |
| **Financial ratios** | | | |
| Total investment return including internal currency hedging | **0.3%** | 1.5% | 2.5% |
| Net loss ratio | **15.1%** | 26.0% | 78.4% |
| Combined ratio | **67.1%** | 78.4% | 124.9% |
| Accident year loss ratio | **38.7%** | 43.3% | 94.2% |

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

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

“With a strong underwriting result and a decent investment performance, despite the volatility in the investment market, the Group has delivered a solid set of results with an RoE of 5.9 per cent. Our earlier predictions of how the insurance market would respond following the 2017 loss events are proving to be accurate. Pricing peaked at the January renewals and we are now experiencing a decline from those levels, although we remain in positive territory for the year to date. We have still been able to take advantage of rate increases across most of our lines of business. The rate increases and growth we have seen for the year to date are masked by the impact of the timing of renewal of some multi-year deals and some prior underwriting year premium that came through in the second quarter of 2017. We are pleased with the new business we have been able to add, in particular across our property book, and our new energy onshore and power underwriters are steadily building their books.

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

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

“We have produced a strong result with a return on equity of 5.9 per cent for the first six months of 2018. Our investment portfolio performed well through further rate increases and on-going volatility in the market. On the underwriting side we continued to grow our book modestly and we also had the benefit of further favourable development on our prior year reserves. Our net loss ratio was 15.1 per cent and our combined ratio was 67.1 per cent.

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

## RENEWAL PRICE INDEX FOR MAJOR CLASSES

The RPI is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts.

The RPI is calculated on a per contract basis and reflects our assessment of relative changes in price, terms, conditions and limits on like for like renewals only and is weighted by premium volume. The RPI does not include new business or contracts with fundamental changes to terms and conditions or exposures. The calculation involves a degree of judgement in relation to comparability of contracts and the assessment noted above. To enhance the RPI methodology, management of Lancashire may revise the methodology and assumptions underlying the RPI, so the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in Lancashire's portfolio. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates.

The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2017, with our Lloyd's segment shown separately in order to aid comparability:

| RPI Lancashire (excluding Lloyd's segment) | 30 June 2018 |
|---|---|
| Class | % |
| Aviation (AV52) | **99** |
| Gulf of Mexico energy | **101** |
| Energy offshore worldwide | **103** |
| Marine | **97** |
| Property retrocession and reinsurance | **109** |
| Terrorism | **100** |
| **Lancashire (excluding Lloyd's segment)** | **104** |

| RPI Lloyd's segment | 30 June 2018 |
|---|---|
| Class | % |
| Aviation | **103** |
| Energy | **103** |
| Marine | **102** |
| Property retrocession and reinsurance | **108** |
| Terrorism | **99** |
| **Lloyd's segment** | **106** |

## UNDERWRITING RESULTS

| Gross premiums written | Six months ended 30 June 2018 $m | Six months ended 30 June 2017 $m | Change $m | Change % |
|---|---|---|---|---|
| Property | **144.1** | 130.2 | 13.9 | 10.7 |
| Energy | **67.8** | 72.4 | (4.6) | (6.4) |
| Marine | **23.9** | 43.1 | (19.2) | (44.5) |
| Aviation | **8.8** | 7.6 | 1.2 | 15.8 |
| Lloyd's | **147.9** | 127.9 | 20.0 | 15.6 |
| **Total** | **392.5** | 381.2 | 11.3 | 3.0 |

Gross premiums written increased by 3.0 per cent in the first six months of 2018 compared to the first six months of 2017. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 10.7 per cent in the first six months of 2018 compared to the first six months of 2017. The majority of the increase was due to new business plus rate increases across most of the property classes in addition to exposure adjustments to some prior underwriting year contracts in the terror class. These increases were somewhat offset by multi-year contracts not renewing in the property catastrophe and political risk classes.

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

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

Aviation gross premiums written increased by 15.8 per cent in the first six months of 2018 compared to the first six months of 2017. The first half of the year is not a major renewal period for the aviation segment and the dollar movement was small.

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

Ceded reinsurance premiums increased by $17.1 million, or 12.1 per cent for the six months of 2018 compared to the same period in 2017. The increase in spend was primarily due to a combination of rate increases, additional cover purchased and timing of renewals, offset in part by less reinstatement premiums.

Net premiums earned as a proportion of net premiums written was 93.2 per cent in the six months to 30 June 2018, compared to 89.8 per cent in the same period in 2017. The marginally higher earnings percentage for the first six months of 2018 compared to the first six months of 2017 was driven by the earning of multi-year deals written in 2017 plus higher reinsurance reinstatement premiums in the first six months of 2017 compared to the first six months of 2018.

The Group's net loss ratio was 15.1 per cent for the six month period to 30 June 2018 compared to 26.0 per cent for the same period in 2017. The accident year loss ratio, including the impact of foreign exchange revaluations, was 38.7 per cent compared to 43.3 per cent for the same period in 2017. There were no significant net losses for the first six months of either year.

Prior year favourable development was $51.8 million for the six months to 30 June 2018. This compared to favourable development of $37.8 million for the same period in 2017. The favourable development in both years was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The first six months of 2018 also included a reduction on prior accident year energy claims.

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

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

| | Six months ended 30 June 2018 $m | Six months ended 30 June 2017 $m |
|---|---|---|
| Property | **18.4** | 10.2 |
| Energy | **29.9** | 10.2 |
| Marine | **5.0** | 11.5 |
| Aviation | **1.0** | 1.7 |
| Lloyd's | **(2.5)** | 4.2 |
| **Total** | **51.8** | 37.8 |

Note: Positive numbers denote favourable development.

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

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

Note: Positive numbers denote favourable development.

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

## INVESTMENTS

Net investment income was $15.9 million for the first six months of 2018, a increase of 8.2 per cent compared to the same period in 2017. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of $5.4 million for the first six months of 2018 compared to a gain of $27.1 million for the same period in 2017.

The investment portfolio generated a return of 0.3 per cent for the first six months of 2018. The investment returns have been dampened by an increase in treasury yields with two U.S. rate hikes and also modest credit spread widening. The portfolio generated a positive return due to strong returns from the Group's hedge fund and bank loan portfolios, as well as our short treasury futures position which mitigated some of the impact from the rise in treasury yields. During the first six months of 2017 the portfolio generated robust returns due to a decline in longer dated treasury yields, a modest narrowing of credit spreads, and strong performance from the hedge fund and equity portfolios.

The corporate bond allocation represents 28.0 per cent of managed invested assets at 30 June 2018 compared to 32.3 per cent at 30 June 2017.

The managed portfolio was invested as follows:

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

Key investment portfolio statistics are:

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

## LANCASHIRE THIRD PARTY CAPITAL MANAGEMENT

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

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| | $m | $m |
| Kinesis underwriting fees | **2.0** | 1.4 |
| Kinesis profit commission | – | 5.4 |
| Lloyd’s fees and profit commission | **0.8** | 1.1 |
| **Total** | **2.8** | 7.9 |
| Share of (loss) profit of associate | **(2.4)** | 1.4 |
| **Total third party capital managed income** | **0.4** | 9.3 |

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

## OTHER OPERATING EXPENSES

Other operating expenses consist of the following items:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| | $m | $m |
| Employee costs | **30.9** | 28.2 |
| Other operating expenses | **19.9** | 21.8 |
| **Total** | **50.8** | 50.0 |

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

Other operating expenses for the first six months of 2018 were $1.9 million lower than the respective period in 2017. The reduction was primarily due to lower software costs incurred and the timing of fees, partially offset by higher consulting fees incurred.

## EQUITY BASED COMPENSATION

Equity based compensation was $3.8 million for the first six months of 2018 compared to $2.8 million in the same period in 2017. The equity based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. During the first six months of 2017 a lower equity based compensation charge was recorded primarily due to the lapsing of restrictive share scheme awards of former Cathedral employees on their departure from the Group, resulting in a higher equity based compensation charge for the first six months of 2018 compared to the same period in 2017.

## CAPITAL

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

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

## DIVIDENDS

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

Lancashire announces that its Board of Directors has declared an interim dividend for 2018 of $0.05 per common share (approximately (£0.03) per common share at the current exchange rate), which will result in an aggregate payment of approximately $10.0 million. The dividend will be paid in Pound Sterling on 12 September 2018 (the "Dividend Payment Date") to shareholders of record on 17 August 2018 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP"), or other services including international payment, are encouraged to contact the Group's registrars, Link Asset Services, for more details at: https://www.linkassetservices.com/shareholders/shareholder-services-uk.

## RATINGS

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

| | Financial Strength Rating [1] | Long Term Issuer Rating [2] | Financial Strength Outlook |
|---|---|---|---|
| A.M. Best | A (Excellent) | bbb | Stable |
| S&P Global Ratings | A- | BBB | Stable |
| Moody's | A3 | Baa2 | Stable |

[1] Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

[2] Long Term Issuer Rating applies to Lancashire Holdings Limited.

Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); S&P Global Ratings: A+ (Strong); and Fitch: AA- (Very strong).

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the six months ended 30 June 2018

| | Notes | **Six months 2018 $m** | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|---|
| Gross premiums written | 2 | **392.5** | 381.2 | 591.6 |
| Outwards reinsurance premiums | 2 | **(158.5)** | (141.4) | (193.6) |
| **Net premiums written** | | **234.0** | 239.8 | 398.0 |
| Change in unearned premiums | 2 | **(87.5)** | (83.3) | 22.6 |
| Change in unearned premiums on premiums ceded | 2 | **71.6** | 58.9 | 7.3 |
| **Net premiums earned** | | **218.1** | 215.4 | 427.9 |
| Net investment income | 3 | **15.9** | 14.7 | 30.5 |
| Net other investment income (losses) | 3 | **3.1** | (1.9) | 1.2 |
| Net realised (losses) gains and impairments | 3 | **(2.0)** | 8.1 | 9.1 |
| Share of (loss) profit of associate | | **(2.4)** | 1.4 | (9.4) |
| Other income | | **2.8** | 7.9 | 17.2 |
| Net foreign exchange (losses) gains | | **(1.4)** | 1.9 | 2.3 |
| **Total net revenue** | | **234.1** | 247.5 | 478.8 |
| Insurance losses and loss adjustment expenses | 2, 6 | **51.1** | 77.1 | 538.0 |
| Insurance losses and loss adjustment expenses recoverable | 2, 6 | **(18.2)** | (21.0) | (202.6) |
| **Net insurance losses** | | **32.9** | 56.1 | 335.4 |
| Insurance acquisition expenses | 2 | **64.7** | 65.6 | 120.7 |
| Insurance acquisition expenses ceded | 2 | **(2.0)** | (2.7) | (5.1) |
| Other operating expenses | | **50.8** | 50.0 | 83.6 |
| Equity based compensation | | **3.8** | 2.8 | (0.4) |
| **Total expenses** | | **150.2** | 171.8 | 534.2 |
| **Results of operating activities** | | **83.9** | 75.7 | (55.4) |
| Financing costs | | **9.0** | 9.0 | 17.5 |
| **Profit (loss) before tax** | | **74.9** | 66.7 | (72.9) |
| Tax credit | 4 | **0.8** | 2.1 | 2.3 |
| **Profit (loss) after tax** | | **75.7** | 68.8 | (70.6) |
| **Profit (loss) for the period attributable to:** | | | | |
| Equity shareholders of LHL | | **75.8** | 68.5 | (71.1) |
| Non-controlling interests | | **(0.1)** | 0.3 | 0.5 |
| **Profit (loss) for the period** | | **75.7** | 68.8 | (70.6) |
| **Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods** | | | | |
| Net change in unrealised gains / losses on investments | 3, 5 | **(11.6)** | 6.2 | 4.9 |
| Tax credit (charge) on net change in unrealised gains / losses on investments | 4, 5 | **0.2** | (0.1) | – |
| **Other comprehensive (loss) income** | | **(11.4)** | 6.1 | 4.9 |
| **Total comprehensive income (loss) for the period** | | **64.3** | 74.9 | (65.7) |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Equity shareholders of LHL | | **64.4** | 74.6 | (66.2) |
| Non-controlling interests | | **(0.1)** | 0.3 | 0.5 |
| **Total comprehensive income (loss) for the period** | | **64.3** | 74.9 | (65.7) |
| | | | | |
| **Earnings (loss) per share** | | | | |
| Basic | 8 | **$0.38** | $0.34 | ($0.36) |
| Diluted | 8 | **$0.38** | $0.34 | ($0.36) |

# CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| | Notes | 30 June 2018<br>$m | 30 June 2017<br>$m | 31 December 2017<br>$m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | **212.4** | 278.7 | 256.5 |
| Accrued interest receivable | | **6.7** | 6.7 | 6.1 |
| Investments | 5 | **1,689.4** | 1,691.1 | 1,654.6 |
| Inwards premiums receivable from insureds and cedants | | **384.7** | 370.4 | 297.9 |
| Reinsurance assets | | | | |
| - Unearned premiums on premiums ceded | | **112.8** | 92.8 | 41.2 |
| - Reinsurance recoveries | 6 | **238.7** | 148.4 | 284.1 |
| - Other receivables | | **20.5** | 15.0 | 20.7 |
| Other receivables | | **45.3** | 35.2 | 42.4 |
| Investment in associate | | **36.5** | 26.6 | 59.4 |
| Property, plant and equipment | | **2.0** | 3.2 | 2.6 |
| Deferred acquisition costs | | **80.9** | 92.4 | 76.7 |
| Intangible assets | | **153.8** | 153.8 | 153.8 |
| **Total assets** | | **2,983.7** | 2,914.3 | 2,896.0 |
| **Liabilities** | | | | |
| Insurance contracts | | | | |
| - Losses and loss adjustment expenses | 6 | **826.8** | 648.0 | 933.5 |
| - Unearned premiums | | **438.4** | 456.8 | 350.9 |
| - Other payables | | **39.9** | 47.7 | 40.7 |
| Amounts payable to reinsurers | | **113.2** | 86.0 | 65.5 |
| Deferred acquisition costs ceded | | **4.3** | 1.7 | 2.5 |
| Other payables | | **67.6** | 66.3 | 48.0 |
| Corporation tax payable | | **0.3** | 0.2 | 2.8 |
| Deferred tax liability | 7 | **14.9** | 18.8 | 16.5 |
| Interest rate swap | | **0.1** | 3.4 | 2.0 |
| Long-term debt | | **325.1** | 324.1 | 326.3 |
| **Total liabilities** | | **1,830.6** | 1,653.0 | 1,788.7 |
| **Shareholders' equity** | | | | |
| Share capital | | **100.7** | 100.7 | 100.7 |
| Own shares | | **(5.0)** | (13.1) | (12.1) |
| Other reserves | | **860.6** | 870.6 | 866.2 |
| Accumulated other comprehensive loss | 5 | **(12.9)** | (0.3) | (1.5) |
| Retained earnings | | **209.4** | 303.2 | 153.6 |
| **Total shareholders' equity attributable to equity shareholders of LHL** | | **1,152.8** | 1,261.1 | 1,106.9 |
| **Non-controlling interests** | | **0.3** | 0.2 | 0.4 |
| **Total shareholders' equity** | | **1,153.1** | 1,261.3 | 1,107.3 |
| **Total liabilities and shareholders' equity** | | **2,983.7** | 2,914.3 | 2,896.0 |

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 25 July 2018 and signed on its behalf by:

**Peter Clarke**
**Director/Chairman**

**Elaine Whelan**
**Director/CFO**

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2018

| | Notes | Share capital | Own shares | Other reserves | Accumulated other comprehensive loss | Retained earnings | Shareholders' equity attributable to equity shareholders of LHL | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | | $m | $m | $m | $m | $m | $m | $m | $m |
| **Balance as at 31 December 2016** | | **100.7** | **(23.2)** | **881.6** | **(6.4)** | **254.6** | **1,207.3** | **0.5** | **1,207.8** |
| Total comprehensive income for the period | | _ | _ | _ | 6.1 | 68.5 | 74.6 | 0.3 | 74.9 |
| Shares donated to trust | | _ | 0.5 | (0.5) | _ | _ | _ | _ | _ |
| Distributed by trust | | _ | 9.6 | (13.3) | | | (3.7) | | (3.7) |
| Dividends on common shares | | _ | _ | _ | _ | (19.9) | (19.9) | _ | (19.9) |
| Dividends paid to minority interest holders | 9 | _ | _ | _ | _ | _ | _ | (0.6) | (0.6) |
| Equity based compensation - expense | | _ | _ | 2.8 | _ | _ | 2.8 | _ | 2.8 |
| **Balance as at 30 June 2017** | | **100.7** | **(13.1)** | **870.6** | **(0.3)** | **303.2** | **1,261.1** | **0.2** | **1,261.3** |
| Total comprehensive loss for the period | | _ | _ | _ | (1.2) | (139.6) | (140.8) | 0.2 | (140.6) |
| Shares donated to trust | | _ | 0.7 | (0.7) | _ | _ | _ | _ | _ |
| Distributed by trust | | _ | 0.3 | (0.5) | _ | _ | (0.2) | _ | (0.2) |
| Dividends on common shares | | _ | _ | _ | _ | (10.0) | (10.0) | _ | (10.0) |
| Equity based compensation - credit | | _ | _ | (3.2) | _ | _ | (3.2) | _ | (3.2) |
| **Balance as at 31 December 2017** | | **100.7** | **(12.1)** | **866.2** | **(1.5)** | **153.6** | **1,106.9** | **0.4** | **1,107.3** |
| Total comprehensive income for the period | | **_** | **_** | **_** | **(11.4)** | **75.8** | **64.4** | **(0.1)** | **64.3** |
| Distributed by trust | | **_** | **7.1** | **(9.6)** | **_** | **_** | **(2.5)** | **_** | **(2.5)** |
| Dividends on common shares | | **_** | **_** | **_** | **_** | **(20.0)** | **(20.0)** | **_** | **(20.0)** |
| Equity based compensation - expense | | **_** | **_** | **4.0** | **_** | **_** | **4.0** | **_** | **4.0** |
| **Balance as at 30 June 2018** | | **100.7** | **(5.0)** | **860.6** | **(12.9)** | **209.4** | **1,152.8** | **0.3** | **1,153.1** |

## CONDENSED INTERIM STATEMENT OF CONSOLIDATED CASH FLOWS

For the six months ended 30 June 2018

| | Notes | **Six months 2018 $m** | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|---|
| **Cash flows used in operating activities** | | | | |
| Profit (loss) before tax | | **74.9** | 66.7 | (72.9) |
| Tax (paid) refunded | | **(3.3)** | 1.3 | 1.3 |
| Depreciation | | **0.7** | 1.0 | 1.8 |
| Interest expense on long-term debt | | **8.8** | 8.1 | 16.4 |
| Interest and dividend income | | **(17.5)** | (18.6) | (37.1) |
| Net amortisation of fixed maturity securities | | **0.3** | 1.8 | 2.8 |
| Equity based compensation | | **3.8** | 2.8 | (0.4) |
| Foreign exchange (gains) losses | | **(0.2)** | 5.7 | 9.4 |
| Share of loss (profit) of associate | | **2.4** | (1.4) | 9.4 |
| Net other investment (income) losses | 3 | **(3.1)** | 1.9 | (1.2) |
| Net realised losses (gains) and impairments | 3 | **2.0** | (8.1) | (9.1) |
| Net unrealised (gains) on interest rate swaps | | **(1.9)** | (0.3) | (1.7) |
| Changes in operational assets and liabilities | | | | |
| - Insurance and reinsurance contracts | | **(87.3)** | (82.9) | 52.0 |
| - Other assets and liabilities | | **17.0** | 5.8 | (9.4) |
| **Net cash flows used in operating activities** | | **(3.4)** | (16.2) | (38.7) |
| **Cash flows (used in) from investing activities** | | | | |
| Interest and dividends received | | **16.9** | 18.5 | 37.6 |
| Purchase of property, plant and equipment | | **(0.1)** | (0.1) | (0.6) |
| Investment in associate | 9 | **20.5** | 24.5 | (19.1) |
| Purchase of investments | | **(493.5)** | (598.9) | (1,196.1) |
| Proceeds on sale of investments | | **447.5** | 570.8 | 1,209.5 |
| **Net cash flows (used in) from investing activities** | | **(8.7)** | 14.8 | 31.3 |
| **Cash flows used in financing activities** | | | | |
| Interest paid | | **(8.8)** | (8.1) | (16.3) |
| Dividends paid | | **(20.0)** | (19.9) | (29.9) |
| Dividend paid to minority interest holders | 9 | **–** | (0.6) | (0.6) |
| Distributions by trust | | **(2.5)** | (3.7) | (3.9) |
| **Net cash flows used in financing activities** | | **(31.3)** | (32.3) | (50.7) |
| **Net decrease in cash and cash equivalents** | | **(43.4)** | (33.7) | (58.1) |
| Cash and cash equivalents at beginning of period | | **256.5** | 308.8 | 308.8 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **(0.7)** | 3.6 | 5.8 |
| **Cash and cash equivalents at end of period** | | **212.4** | 278.7 | 256.5 |

### Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of the Group's unaudited condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2018. These will be consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, other than for the adoption of IFRS 15, Revenue from Contracts with Customers as stated below.

IFRS 15, Revenue from Contracts with Customers, became effective from 1 January 2018. IFRS 15 has not had a material impact on the results and disclosures reported in the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2018 and is consistent with our previous treatment of other income.

The accounting policies that have been impacted by IFRS 15 are disclosed below.

#### Other income

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties.

#### Nature of services

The table below details the principle activities from which the Group derives its other income from third party capital activities.

| Services | Nature, timing of satisfaction of performance obligation and significant payment terms |
|---|---|
| Kinesis underwriting fees | The Group recognises underwriting fees over the underwriting cycle based on the underlying exposure of the covered contracts. Fees are received by or before the collateral funding date, which is prior to commencement of the underwriting cycle. |
| Kinesis profit commission | The Group recognises profit commission following the end of the underwriting cycle based on the underlying performance of the covered contracts and as collateral is released. Profit commissions may only be received once the profit commission hurdle has been met. |
| Lloyd's consortium management fees | The Group recognises consortium fees over the risk period based on the underlying exposure of the covered contracts. Consortium fees are received quarterly. |
| Lloyd's consortium profit commission | The Group recognises profit commission in line with the underlying performance of covered contracts once the year of account closes, which is also when the profit commissions are received. |
| Lloyd's managing agency fees | The Group recognises managing agency fees in line with services provided for each year of account. Managing agency fees are received quarterly. |
| Lloyd's managing agency profit commission | The Group recognises profit commission on open years of account when measurement is virtually certain. Profit commissions are received once the year of account closes. |

There are also amendments to other existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2018, these are not currently relevant for the Group and do not impact the annual consolidated financial statements of the Group or the condensed interim consolidated financial statements of the Group.

### Basis of preparation

The Group's unaudited condensed interim consolidated financial statements are prepared using accounting policies consistent with IFRS as adopted by the EU and in accordance with IAS 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements which are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the EU.

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

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

### Seasonality of interim operations

The Group underwrites worldwide, short-tail insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes.

The Group has exposure to large losses arising from non-seasonal natural catastrophes, such as earthquakes, and also from risk losses throughout the year and from war, terrorism and political risk losses. On certain lines of business the Group's most significant exposures to catastrophe losses are greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period. This is broadly in line with the most active period of the North American windstorm season which is typically June to November. The Group is also exposed to Japanese and European windstorm seasons which are typically June to November and November to March, respectively. The majority of the premiums for these lines of business are written during the first half of the fiscal year.

Details of annual gross premiums written for the previous two years are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | $m | % | $m | % |
| January to June | 381.2 | 64.4 | 430.6 | 67.9 |
| July to December | 210.4 | 35.6 | 203.3 | 32.1 |
| Total | 591.6 | 100.0 | 633.9 | 100.0 |

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

| | | **30 June 2018** | | 30 June 2017 | | 31 December 2017 | |
|---|---|---|---|---|---|---|---|
| Zones | Perils | **$m** | **% of tangible capital** | $m | % of tangible capital | $m | % of tangible capital |
| | | **100 year return period estimated net loss** | | | | | |
| Gulf of Mexico[1] | Hurricane | **184.8** | **14.0** | 157.6 | 11.0 | 173.8 | 13.6 |
| Non-Gulf of Mexico - U.S. | Hurricane | **126.7** | **9.6** | 130.2 | 9.1 | 140.9 | 11.0 |
| California | Earthquake | **82.0** | **6.2** | 83.8 | 5.9 | 96.1 | 7.5 |
| Pan-European | Windstorm | **74.3** | **5.6** | 65.3 | 4.6 | 77.2 | 6.0 |
| Japan | Typhoon | **35.5** | **2.7** | 49.0 | 3.4 | 51.6 | 4.0 |
| Japan | Earthquake | **47.0** | **3.5** | 38.5 | 2.7 | 46.6 | 3.6 |
| Pacific North West | Earthquake | **22.3** | **1.7** | 27.9 | 1.9 | 33.1 | 2.6 |

(1) Landing hurricane from Florida to Texas.

| | | **30 June 2018** | | 30 June 2017 | | 31 December 2017 | |
|---|---|---|---|---|---|---|---|
| Zones | Perils | **$m** | **% of tangible capital** | $m | % of tangible capital | $m | % of tangible capital |
| | | **250 year return period estimated net loss** | | | | | |
| Gulf of Mexico[1] | Hurricane | **269.0** | **20.3** | 236.0 | 16.5 | 253.6 | 19.8 |
| Non-Gulf of Mexico - U.S. | Hurricane | **278.1** | **21.0** | 290.7 | 20.3 | 306.5 | 24.0 |
| California | Earthquake | **141.2** | **10.7** | 128.7 | 9.0 | 181.1 | 14.2 |
| Pan-European | Windstorm | **122.5** | **9.3** | 99.7 | 7.0 | 125.1 | 9.8 |
| Japan | Typhoon | **50.0** | **3.8** | 66.4 | 4.6 | 68.1 | 5.3 |
| Japan | Earthquake | **105.8** | **8.0** | 69.6 | 4.9 | 85.6 | 6.7 |
| Pacific North West | Earthquake | **71.0** | **5.4** | 68.4 | 4.8 | 79.6 | 6.2 |

(1) Landing hurricane from Florida to Texas.

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

## Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 101 to 125 in the Group's Annual Report and Accounts for the year ended 31 December 2017. The risks that were discussed on those pages were:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

These remain the most relevant risks and uncertainties for the Group.

## 1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in London and Bermuda. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the official list and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007 LHL's shares have had a secondary listing on the BSX. LHL's registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. LHL's head office is Level 29, 20 Fenchurch Street, London, EC3M 3BY, UK.

## 2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 103 to 106 of the Group's Annual Report and Accounts for the year ended 31 December 2017. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

### REVENUE AND EXPENSE BY OPERATING SEGMENT

| For the six months ended 30 June 2018 | Property $m | Energy $m | Marine $m | Aviation $m | Lloyd's $m | Total $m |
|---|---|---|---|---|---|---|
| **Gross premiums written by geographic area** | | | | | | |
| U.S. and Canada | 58.0 | 1.0 | – | – | 66.5 | 125.5 |
| Worldwide offshore | 0.2 | 57.5 | 24.1 | – | – | 81.8 |
| Worldwide, including the U.S. and Canada[1] | 23.5 | 5.4 | – | 8.8 | 36.4 | 74.1 |
| Europe | 20.7 | 0.9 | – | – | 15.9 | 37.5 |
| Far East | 15.7 | 0.1 | – | – | 6.0 | 21.8 |
| Worldwide, excluding the U.S. and Canada[2] | 3.8 | 1.0 | – | – | 4.5 | 9.3 |
| Middle East | 2.1 | 1.1 | – | – | 0.5 | 3.7 |
| Rest of world | 20.1 | 0.8 | (0.2) | – | 18.1 | 38.8 |
| **Total** | 144.1 | 67.8 | 23.9 | 8.8 | 147.9 | 392.5 |
| Outwards reinsurance premiums | (65.2) | (31.0) | (8.1) | (5.4) | (48.8) | (158.5) |
| Change in unearned premiums | (41.2) | (10.5) | 2.0 | 1.5 | (39.3) | (87.5) |
| Change in unearned premiums on premiums ceded | 30.6 | 12.9 | 3.8 | 2.3 | 22.0 | 71.6 |
| **Net premiums earned** | 68.3 | 39.2 | 21.6 | 7.2 | 81.8 | 218.1 |
| Insurance losses and loss adjustment expenses | (6.9) | 7.5 | (5.5) | (3.0) | (43.2) | (51.1) |
| Insurance losses and loss adjustment expenses recoverable | 4.5 | (0.1) | (0.1) | 3.0 | 10.9 | 18.2 |
| Insurance acquisition expenses | (17.0) | (17.5) | (7.7) | (3.7) | (18.8) | (64.7) |
| Insurance acquisition expenses ceded | 1.5 | 0.4 | (0.2) | – | 0.3 | 2.0 |
| **Net underwriting profit** | 50.4 | 29.5 | 8.1 | 3.5 | 31.0 | 122.5 |
| Net unallocated income and expenses | | | | | | (47.6) |
| **Profit before tax** | | | | | | 74.9 |
| Net loss ratio | 3.5% | (18.9%) | 25.9% | – | 39.5% | 15.1% |
| Net acquisition cost ratio | 22.7% | 43.6 % | 36.6% | 51.4% | 22.6% | 28.7% |
| Expense ratio | – | – | – | – | – | 23.3% |
| **Combined ratio** | 26.2% | 24.7 % | 62.5% | 51.4% | 62.1% | 67.1% |

[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 six months ended 30 June 2017 | Property $m | Energy $m | Marine $m | Aviation $m | Lloyd's $m | Total $m |
|---|---|---|---|---|---|---|
| **Gross premiums written by geographic area** | | | | | | |
| U.S. and Canada | 60.8 | 4.8 | – | – | 58.9 | 124.5 |
| Worldwide offshore | (0.1) | 66.4 | 42.9 | – | – | 109.2 |
| Worldwide, including the U.S. and Canada(1) | 16.1 | 1.7 | – | 7.6 | 32.2 | 57.6 |
| Europe | 14.7 | – | – | – | 12.5 | 27.2 |
| Far East | 13.9 | – | – | – | 6.3 | 20.2 |
| Worldwide, excluding the U.S. and Canada(2) | 4.8 | (0.1) | – | – | 4.0 | 8.7 |
| Middle East | 2.0 | – | – | – | 0.6 | 2.6 |
| Rest of world | 18.0 | (0.4) | 0.2 | – | 13.4 | 31.2 |
| **Total** | 130.2 | 72.4 | 43.1 | 7.6 | 127.9 | 381.2 |
| Outwards reinsurance premiums | (49.7) | (36.9) | (8.8) | (6.8) | (39.2) | (141.4) |
| Change in unearned premiums | (34.6) | (11.1) | (10.6) | 3.9 | (30.9) | (83.3) |
| Change in unearned premiums on premiums ceded | 20.9 | 16.6 | 3.8 | 1.8 | 15.8 | 58.9 |
| **Net premiums earned** | 66.8 | 41.0 | 27.5 | 6.5 | 73.6 | 215.4 |
| Insurance losses and loss adjustment expenses | (10.8) | (26.8) | (4.5) | 0.8 | (35.8) | (77.1) |
| Insurance losses and loss adjustment expenses recoverable | 0.5 | 15.8 | 0.2 | 0.6 | 3.9 | 21.0 |
| Insurance acquisition expenses | (15.3) | (19.8) | (10.3) | (3.4) | (16.8) | (65.6) |
| Insurance acquisition expenses ceded | 1.4 | 0.8 | 0.3 | 0.1 | 0.1 | 2.7 |
| **Net underwriting profit** | 42.6 | 11.0 | 13.2 | 4.6 | 25.0 | 96.4 |
| Net unallocated income and expenses | | | | | | (29.7) |
| **Profit before tax** | | | | | | 66.7 |
| Net loss ratio | 15.4% | 26.8% | 15.6% | (21.5)% | 43.3% | 26.0% |
| Net acquisition cost ratio | 20.8% | 46.3% | 36.4% | 50.8 % | 22.7% | 29.2% |
| Expense ratio | – | – | – | – | – | 23.2% |
| **Combined ratio** | 36.2% | 73.1% | 52.0% | 29.3 % | 66.0% | 78.4% |

(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 2017 | Property $m | Energy $m | Marine $m | Aviation $m | Lloyd's $m | Total $m |
|---|---|---|---|---|---|---|
| **Gross premiums written by geographic area** | | | | | | |
| U.S. and Canada | 80.0 | 4.7 | – | – | 92.9 | 177.6 |
| Worldwide offshore | 0.2 | 94.8 | 67.5 | – | – | 162.5 |
| Worldwide, including the U.S. and Canada[(1)] | 30.3 | 2.5 | – | 16.9 | 48.9 | 98.6 |
| Europe | 23.1 | – | – | – | 15.8 | 38.9 |
| Far East | 16.5 | – | – | – | 11.4 | 27.9 |
| Worldwide, excluding the U.S. and Canada[(2)] | 6.0 | 0.1 | – | – | 5.4 | 11.5 |
| Middle East | 5.3 | – | – | – | 1.6 | 6.9 |
| Rest of world | 36.6 | (0.3) | 0.1 | – | 31.3 | 67.7 |
| **Total** | 198.0 | 101.8 | 67.6 | 16.9 | 207.3 | 591.6 |
| Outwards reinsurance premiums | (66.3) | (45.1) | (11.3) | (7.2) | (63.7) | (193.6) |
| Change in unearned premiums | 11.6 | 7.5 | (5.6) | 4.4 | 4.7 | 22.6 |
| Change in unearned premiums on premiums ceded | 3.2 | 6.2 | – | (2.5) | 0.4 | 7.3 |
| **Net premiums earned** | 146.5 | 70.4 | 50.7 | 11.6 | 148.7 | 427.9 |
| Insurance losses and loss adjustment expenses | (254.9) | (34.7) | (17.3) | 1.6 | (232.7) | (538.0) |
| Insurance losses and loss adjustment expenses recoverable | 87.3 | 23.6 | 0.6 | 0.6 | 90.5 | 202.6 |
| Insurance acquisition expenses | (30.2) | (32.4) | (19.0) | (3.3) | (35.8) | (120.7) |
| Insurance acquisition expenses ceded | 2.6 | 1.4 | 0.6 | 0.1 | 0.4 | 5.1 |
| **Net underwriting (loss) profit** | (48.7) | 28.3 | 15.6 | 10.6 | (28.9) | (23.1) |
| Net unallocated income and expenses | | | | | | (49.8) |
| **Loss before tax** | | | | | | (72.9) |
| Net loss ratio | 114.4% | 15.8% | 32.9% | (19.0)% | 95.6% | 78.4% |
| Net acquisition cost ratio | 18.8% | 44.0% | 36.3% | 27.6 % | 23.8% | 27.0% |
| Expense ratio | – | – | – | – | – | 19.5% |
| **Combined ratio** | 133.2% | 59.8% | 69.2% | 8.6 % | 119.4% | 124.9% |

(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 six months ended 30 June 2018 | Net investment income and net other investment income (losses)[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 maturity securities - AFS | **14.9** | **(3.2)** | **(11.6)** | **0.1** | **(2.4)** | **(2.3)** |
| Hedge funds - at FVTPL | **2.9** | **1.6** | – | **4.5** | – | **4.5** |
| Other investments | **0.2** | **(0.4)** | – | **(0.2)** | **2.0** | **1.8** |
| Cash and cash equivalents | **1.0** | – | – | **1.0** | **(0.3)** | **0.7** |
| **Total investment return** | **19.0** | **(2.0)** | **(11.6)** | **5.4** | **(0.7)** | **4.7** |

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

| For the six months ended 30 June 2017 | Net investment income and net other investment income (losses)[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 maturity securities - AFS | 13.8 | (0.7) | 5.1 | 18.2 | 5.4 | 23.6 |
| Fixed maturity securities - at FVTPL | (0.9) | 2.4 | – | 1.5 | – | 1.5 |
| Equity securities - AFS | – | 0.9 | 1.1 | 2.0 | – | 2.0 |
| Hedge funds - at FVTPL | (1.7) | 6.2 | – | 4.5 | – | 4.5 |
| Other investments | 0.7 | (0.7) | – | – | (1.4) | (1.4) |
| Cash and cash equivalents | 0.9 | – | – | 0.9 | 0.3 | 1.2 |
| **Total investment return** | 12.8 | 8.1 | 6.2 | 27.1 | 4.3 | 31.4 |

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

| For the year ended 31 December 2017 | Net investment income and net other investment income (losses)[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 maturity securities - AFS | 28.6 | (2.9) | 2.1 | 27.8 | 9.8 | 37.6 |
| Fixed maturity securities - at FVTPL | (1.0) | 2.4 | – | 1.4 | – | 1.4 |
| Equity securities - AFS | – | 0.8 | 2.8 | 3.6 | – | 3.6 |
| Hedge funds - at FVTPL | 1.1 | 9.5 | – | 10.6 | – | 10.6 |
| Other investments | 1.1 | (0.7) | – | 0.4 | (2.6) | (2.2) |
| Cash and cash equivalents | 1.9 | – | – | 1.9 | 0.5 | 2.4 |
| **Total investment return** | 31.7 | 9.1 | 4.9 | 45.7 | 7.7 | 53.4 |

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

Net realised (losses) gains and impairments includes impairment losses of $0.1 million (30 June 2017 - $0.3 million; 31 December 2017 - $1.3 million) recognised on fixed maturity securities. Realised gains and losses on futures, options contracts and swaps are included in net realised (losses) gains and impairments. Included in net investment income and net other investment income (losses) is $2.3 million (30 June 2017 - $2.2 million; 31 December 2017 - $4.6 million) of investment management, accounting and custodian fees.

## 4. TAX

### BERMUDA

LHL, LICL and LUK have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

### UNITED KINGDOM

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

| | **Six months 2018 $m** | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| Corporation tax charge for the period | **0.7** | – | 3.3 |
| Adjustments in respect of prior period corporation tax | **0.1** | (1.6) | (2.3) |
| Deferred tax credit for the period | **(1.7)** | (1.0) | (4.1) |
| Adjustments in respect of prior period deferred tax | **0.1** | 1.4 | 1.4 |
| Tax rate change adjustment | **–** | (0.9) | (0.6) |
| **Total tax credit** | **(0.8)** | (2.1) | (2.3) |

| **Tax reconciliation[1]** | **Six months 2018 $m** | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| **Profit (loss) before tax** | **74.9** | 66.7 | (72.9) |
| **UK corporation tax at 19.0%** (2017 - 19.3%) | **14.2** | 12.8 | (14.1) |
| Non-taxable (income) loss | **(16.9)** | (16.7) | 10.1 |
| Adjustments in respect of prior period | **0.2** | (0.2) | (0.9) |
| Differences related to equity based compensation | **0.5** | (0.2) | (0.6) |
| Other expense permanent differences | **1.2** | 1.1 | 3.8 |
| Tax rate change adjustment | **–** | (0.9) | (0.6) |
| Unused tax losses not recognised for deferred tax | **–** | 2.0 | – |
| **Total tax credit** | **(0.8)** | (2.1) | (2.3) |

[1] All tax reconciling balances have been classified as recurring items.

The current tax credit as a percentage of the Group's profit (loss) before tax is 1.1 per cent (30 June 2017 - 3.1 per cent; 31 December 2017 - negative 3.2 per cent). Non taxable income (loss) relates to profits (losses) of companies within the Group that are non-tax resident in the UK and the share of (loss) profit of associate.

Refer to note 5 for details of the tax credit related to the net change in unrealised gains and losses on investments that are included in accumulated other comprehensive loss within shareholders' equity.

## 5. INVESTMENTS

| As at 30 June 2018 | Cost or amortised cost $m | Unrealised gain[1] $m | Unrealised loss[1] $m | Estimated fair value $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | **155.8** | – | **(0.1)** | **155.7** |
| - Fixed maturity funds | **12.4** | – | – | **12.4** |
| - U.S. treasuries | **208.1** | – | **(2.2)** | **205.9** |
| - Other government bonds | **66.1** | **0.1** | **(1.0)** | **65.2** |
| - U.S. municipal bonds | **7.1** | **0.1** | **(0.1)** | **7.1** |
| - U.S. government agency debt | **101.2** | – | **(1.1)** | **100.1** |
| - Asset backed securities | **141.3** | **2.5** | **(1.3)** | **142.5** |
| - U.S. government agency mortgage backed securities | **127.2** | **0.3** | **(4.2)** | **123.3** |
| - Non-agency mortgage backed securities | **19.2** | – | – | **19.2** |
| - Non-agency commercial mortgage backed securities | **0.2** | – | – | **0.2** |
| - Bank loans | **114.1** | **0.5** | **(0.8)** | **113.8** |
| - Corporate bonds | **520.1** | **1.0** | **(8.4)** | **512.7** |
| **Total fixed maturity securities - AFS** | **1,472.8** | **4.5** | **(19.2)** | **1,458.1** |
| - Fixed maturity securities - at FVTPL | **45.7** | – | – | **45.7** |
| - Equity securities - AFS | **20.0** | **3.2** | – | **23.2** |
| - Hedge funds - at FVTPL | **149.7** | **15.4** | **(2.4)** | **162.7** |
| - Other investments | – | **0.3** | **(0.6)** | **(0.3)** |
| **Total investments** | **1,688.2** | **23.4** | **(22.2)** | **1,689.4** |

[1] Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

| As at 30 June 2017 | Cost or amortised cost $m | Unrealised gain[1] $m | Unrealised loss[1] $m | Estimated fair value $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | 56.4 | – | – | 56.4 |
| - Fixed maturity funds | 12.1 | – | – | 12.1 |
| - U.S. treasuries | 253.8 | 0.1 | (1.4) | 252.5 |
| - Other government bonds | 67.9 | 0.5 | (0.4) | 68.0 |
| - U.S. municipal bonds | 6.0 | – | – | 6.0 |
| - U.S. government agency debt | 93.8 | 0.1 | (1.0) | 92.9 |
| - Asset backed securities | 123.7 | 2.8 | (0.3) | 126.2 |
| - U.S. government agency mortgage backed securities | 123.7 | 0.6 | (1.7) | 122.6 |
| - Non-agency mortgage backed securities | 14.5 | 0.1 | (0.3) | 14.3 |
| - Non-agency commercial mortgage backed securities | 4.5 | – | (0.1) | 4.4 |
| - Bank loans | 122.6 | 0.7 | (1.0) | 122.3 |
| - Corporate bonds | 601.4 | 4.5 | (1.6) | 604.3 |
| **Total fixed maturity securities - AFS** | 1,480.4 | 9.4 | (7.8) | 1,482.0 |
| - Fixed maturity securities - at FVTPL | 25.7 | – | – | 25.7 |
| - Equity securities - AFS | 20.1 | 1.5 | – | 21.6 |
| - Hedge funds - at FVTPL | 156.3 | 6.1 | (0.2) | 162.2 |
| - Other investments | – | 0.3 | (0.7) | (0.4) |
| **Total investments** | 1,682.5 | 17.3 | (8.7) | 1,691.1 |

[1] Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

| As at 31 December 2017 | Cost or amortised cost $m | Unrealised gain[(1)] $m | Unrealised loss[(1)] $m | Estimated fair value $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | 111.2 | _ | (0.1) | 111.1 |
| - Fixed maturity funds | 31.2 | _ | (0.2) | 31.0 |
| - U.S. treasuries | 237.4 | 0.1 | (1.8) | 235.7 |
| - Other government bonds | 71.2 | 0.8 | (0.6) | 71.4 |
| - U.S. municipal bonds | 6.0 | _ | _ | 6.0 |
| - U.S. government agency debt | 71.2 | _ | (0.7) | 70.5 |
| - Asset backed securities | 139.5 | 4.9 | (0.4) | 144.0 |
| - U.S. government agency mortgage backed securities | 142.4 | 0.4 | (1.8) | 141.0 |
| - Non-agency mortgage backed securities | 13.2 | 0.2 | (0.2) | 13.2 |
| - Non-agency commercial mortgage backed securities | 0.2 | _ | _ | 0.2 |
| - Bank loans | 106.5 | 0.8 | (0.6) | 106.7 |
| - Corporate bonds | 520.1 | 3.6 | (2.3) | 521.4 |
| **Total fixed maturity securities - AFS** | 1,450.1 | 10.8 | (8.7) | 1,452.2 |
| - Fixed maturity securities - at FVTPL | 25.7 | _ | _ | 25.7 |
| - Equity securities - AFS | 20.0 | 3.2 | _ | 23.2 |
| - Hedge funds - at FVTPL | 144.6 | 9.8 | (0.4) | 154.0 |
| - Other investments | _ | _ | (0.5) | (0.5) |
| **Total investments** | 1,640.4 | 23.8 | (9.6) | 1,654.6 |

(1) Includes unrealised foreign exchange gains/(losses) recognised in profit and loss on AFS securities.

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

| | **30 June 2018** $m | 30 June 2017 $m | 31 December 2017 $m |
|---|---|---|---|
| Unrealised gains | **7.7** | 10.9 | 14.0 |
| Unrealised losses | **(19.2)** | (7.8) | (8.7) |
| Net foreign exchange gains on AFS securities | **(1.7)** | (3.4) | (6.9) |
| Tax credit | **0.3** | _ | 0.1 |
| **Accumulated other comprehensive loss** | **(12.9)** | (0.3) | (1.5) |

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio 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 the six months ended 30 June 2018 and 30 June 2017 and the year ended 31 December 2017.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

### LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines securities classified as Level (i) to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

### LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets, for similar assets or liabilities, or 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 such as:

- Short-term investments;
- Fixed maturity funds;
- Other 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;
- Non-agency commercial mortgage backed securities;
- Bank loans;
- Corporate bonds; and
- OTC derivatives, such as options, forward foreign exchange contracts, interest rate swaps and credit default swaps.

### LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. The Group classifies hedge funds as Level (iii) assets as the valuation techniques incorporate both observable and unobservable inputs.

The estimated fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we do not anticipate any material variance between estimated valuations and actual valuations.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

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

| As at 30 June 2018 | Level (i) $m | Level (ii) $m | Level (iii) $m | Total $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | **141.4** | **14.3** | _ | **155.7** |
| - Fixed maturity funds | _ | **12.4** | _ | **12.4** |
| - U.S. treasuries | **205.9** | _ | _ | **205.9** |
| - Other government bonds | _ | **65.2** | _ | **65.2** |
| - U.S. municipal bonds | _ | **7.1** | _ | **7.1** |
| - U.S. government agency debt | _ | **100.1** | _ | **100.1** |
| - Asset backed securities | _ | **142.5** | _ | **142.5** |
| - U.S. government agency mortgage backed securities | _ | **123.3** | _ | **123.3** |
| - Non-agency mortgage backed securities | _ | **19.2** | _ | **19.2** |
| - Non-agency commercial mortgage backed securities | _ | **0.2** | _ | **0.2** |
| - Bank loans | _ | **113.8** | _ | **113.8** |
| - Corporate bonds | _ | **512.7** | _ | **512.7** |
| **Total fixed maturity securities - AFS** | **347.3** | **1,110.8** | _ | **1,458.1** |
| - Fixed maturity securities - at FVTPL | _ | **45.7** | _ | **45.7** |
| - Equity securities - AFS | **23.2** | _ | _ | **23.2** |
| - Hedge funds - at FVTPL | _ | _ | **162.7** | **162.7** |
| - Other investments | _ | **(0.3)** | _ | **(0.3)** |
| **Total investments** | **370.5** | **1,156.2** | **162.7** | **1,689.4** |

| As at 30 June 2017 | Level (i) $m | Level (ii) $m | Level (iii) $m | Total $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | 55.0 | 1.4 | _ | 56.4 |
| - Fixed maturity funds | _ | 12.1 | _ | 12.1 |
| - U.S. treasuries | 252.5 | _ | _ | 252.5 |
| - Other government bonds | _ | 68.0 | _ | 68.0 |
| - U.S. municipal bonds | _ | 6.0 | _ | 6.0 |
| - U.S. government agency debt | _ | 92.9 | _ | 92.9 |
| - Asset backed securities | _ | 126.2 | _ | 126.2 |
| - U.S. government agency mortgage backed securities | _ | 122.6 | _ | 122.6 |
| - Non-agency mortgage backed securities | _ | 14.3 | _ | 14.3 |
| - Non-agency commercial mortgage backed securities | _ | 4.4 | _ | 4.4 |
| - Bank loans | _ | 122.3 | _ | 122.3 |
| - Corporate bonds | _ | 604.3 | _ | 604.3 |
| **Total fixed maturity securities - AFS** | 307.5 | 1,174.5 | _ | 1,482.0 |
| - Fixed maturity securities - at FVTPL | _ | 25.7 | _ | 25.7 |
| - Equity securities - AFS | 21.6 | _ | _ | 21.6 |
| - Hedge funds - at FVTPL | _ | _ | 162.2 | 162.2 |
| - Other investments | _ | (0.4) | _ | (0.4) |
| **Total investments** | 329.1 | 1,199.8 | 162.2 | 1,691.1 |

| As at 31 December 2017 | Level (i) $m | Level (ii) $m | Level (iii) $m | Total $m |
|---|---|---|---|---|
| **Fixed maturity securities - AFS** | | | | |
| - Short-term investments | 104.6 | 6.5 | _ | 111.1 |
| - Fixed maturity funds | _ | 31.0 | _ | 31.0 |
| - U.S. treasuries | 235.7 | _ | _ | 235.7 |
| - Other government bonds | _ | 71.4 | _ | 71.4 |
| - U.S. municipal bonds | _ | 6.0 | _ | 6.0 |
| - U.S. government agency debt | _ | 70.5 | _ | 70.5 |
| - Asset backed securities | _ | 144.0 | _ | 144.0 |
| - U.S. government agency mortgage backed securities | _ | 141.0 | _ | 141.0 |
| - Non-agency mortgage backed securities | _ | 13.2 | _ | 13.2 |
| - Non-agency commercial mortgage backed securities | _ | 0.2 | _ | 0.2 |
| - Bank loans | _ | 106.7 | _ | 106.7 |
| - Corporate bonds | _ | 521.4 | _ | 521.4 |
| **Total fixed maturity securities - AFS** | 340.3 | 1,111.9 | _ | 1,452.2 |
| - Fixed maturity securities - at FVTPL | _ | 25.7 | _ | 25.7 |
| - Equity securities - AFS | 23.2 | _ | _ | 23.2 |
| - Hedge funds - at FVTPL | _ | _ | 154.0 | 154.0 |
| - Other investments | _ | (0.5) | _ | (0.5) |
| **Total investments** | 363.5 | 1,137.1 | 154.0 | 1,654.6 |

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

The table below analyses the movements in hedge funds classified as Level (iii) investments during the six months ended 30 June 2018 and 30 June 2017 and for the year ended 31 December 2017:

| | Hedge funds $m |
|---|---|
| **As at 31 December 2016** | 129.4 |
| Purchases | 123.6 |
| Sales | (95.4) |
| Total net realised and unrealised gains recognised in profit or loss | 4.6 |
| **As at 30 June 2017** | 162.2 |
| Purchases | 26.1 |
| Sales | (41.1) |
| Total net realised and unrealised gains recognised in profit or loss | 6.8 |
| **As at 31 December 2017** | 154.0 |
| Purchases | **9.9** |
| Sales | **(6.4)** |
| Total net realised and unrealised gains recognised in profit or loss | **5.2** |
| **As at 30 June 2018** | **162.7** |

## 6. 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 2016** | 679.8 | (136.7) | 543.1 |
| Net incurred losses for: | | | |
| Prior years | (19.5) | (18.3) | (37.8) |
| Current year | 96.6 | (2.7) | 93.9 |
| Exchange adjustments | 12.0 | (0.1) | 11.9 |
| **Incurred losses and loss adjustment expenses** | 89.1 | (21.1) | 68.0 |
| Net paid losses for: | | | |
| Prior years | 113.2 | (9.3) | 103.9 |
| Current year | 7.7 | (0.1) | 7.6 |
| **Paid losses and loss adjustment expenses** | 120.9 | (9.4) | 111.5 |
| **As at 30 June 2017** | 648.0 | (148.4) | 499.6 |
| Net incurred losses for: | | | |
| Prior years | (20.6) | (6.7) | (27.3) |
| Current year | 481.5 | (174.9) | 306.6 |
| Exchange adjustments | 6.8 | (0.6) | 6.2 |
| **Incurred losses and loss adjustment expenses** | 467.7 | (182.2) | 285.5 |
| Net paid losses for: | | | |
| Prior years | 117.9 | (40.9) | 77.0 |
| Current year | 64.3 | (5.6) | 58.7 |
| **Paid losses and loss adjustment expenses** | 182.2 | (46.5) | 135.7 |
| **As at 31 December 2017** | 933.5 | (284.1) | 649.4 |
| Net incurred losses for: | | | |
| Prior years | **(39.6)** | **(12.2)** | **(51.8)** |
| Current year | **90.7** | **(6.0)** | **84.7** |
| Exchange adjustments | **(4.1)** | **0.3** | **(3.8)** |
| **Incurred losses and loss adjustment expenses** | **47.0** | **(17.9)** | **29.1** |
| Net paid losses for: | | | |
| Prior years | **146.3** | **(61.8)** | **84.5** |
| Current year | **7.4** | **(1.5)** | **5.9** |
| **Paid losses and loss adjustment expenses** | **153.7** | **(63.3)** | **90.4** |
| **As at 30 June 2018** | **826.8** | **(238.7)** | **588.1** |

The split of gross losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

| | **30 June 2018** | | 30 June 2017 | | 31 December 2017 | |
|---|---|---|---|---|---|---|
| | **$m** | **%** | $m | % | $m | % |
| Outstanding losses | **303.5** | **36.7** | 290.0 | 44.8 | 300.4 | 32.2 |
| Additional case reserves | **162.5** | **19.7** | 158.8 | 24.5 | 186.5 | 20.0 |
| Losses incurred but not reported | **360.8** | **43.6** | 199.2 | 30.7 | 446.6 | 47.8 |
| **Total** | **826.8** | **100.0** | 648.0 | 100.0 | 933.5 | 100.0 |

The Group's reserve for unpaid losses and loss adjustment expenses for all periods had an estimated duration of approximately two years.

## CLAIMS DEVELOPMENT

The inherent uncertainty in reserving gives rise to favourable or unfavourable development on the established reserves. The total favourable or unfavourable development on net losses and loss adjustment expenses from prior years, excluding the impact of foreign exchange revaluations, was as follows:

| Favourable (unfavourable) development | 30 June 2018 $m | 30 June 2017 $m | 31 December 2017 $m |
|---|---|---|---|
| 2008 accident year and prior | **0.5** | 0.8 | 0.1 |
| 2009 accident year | **10.9** | 0.1 | 0.1 |
| 2010 accident year | – | 1.6 | 1.8 |
| 2011 accident year | **3.7** | 4.3 | 8.8 |
| 2012 accident year | **(1.5)** | 3.1 | 5.0 |
| 2013 accident year | **2.3** | 2.6 | 3.5 |
| 2014 accident year | **2.0** | 2.9 | 9.2 |
| 2015 accident year | **5.1** | 14.2 | 20.3 |
| 2016 accident year | **19.8** | 8.2 | 16.3 |
| 2017 accident year | **9.0** | – | – |
| **Total favourable development** | **51.8** | 37.8 | 65.1 |

## 7. DEFERRED TAX

| | 30 June 2018 $m | 30 June 2017 $m | 31 December 2017 $m |
|---|---|---|---|
| Equity based compensation | **(2.0)** | (3.4) | (2.9) |
| Claims equalisation reserves | **7.4** | 8.8 | 8.3 |
| Syndicate underwriting profits | **(1.0)** | 1.9 | 0.1 |
| Syndicate participation rights | **12.8** | 12.6 | 12.7 |
| Other temporary differences | **(1.8)** | (1.0) | (1.2) |
| Tax losses carried forward | **(0.5)** | (0.1) | (0.5) |
| **Net deferred tax liability** | **14.9** | 18.8 | 16.5 |

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available in 2018 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of $10.9 million (30 June 2017 - $13.2 million; 31 December 2017 - $10.9 million) has not been recognised in relation to unused tax losses carried forward as, at present, the related tax benefit is not expected to be realised through future taxable profits. For the periods ended 30 June 2018 and 30 June 2017 and for the year ended 31 December 2017, the Group had no uncertain tax positions.

Changes to the UK main rate of corporation tax have been enacted under the Finance Act 2016 reducing the rate to 17 per cent from 1 April 2020.

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

## 8. EARNINGS PER SHARE

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

| | Six months 2018 $m | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| Profit (loss) for the period attributable to equity shareholders | **75.8** | 68.5 | (71.1) |

| | Six months 2018 Number of shares | Six months 2017 Number of shares | Twelve months 2017 Number of shares |
|---|---|---|---|
| Basic weighted average number of shares | **200,512,346** | 199,471,486 | 199,723,434 |
| Dilutive effect of RSS | **1,506,333** | 2,334,583 | 1,780,368 |
| Diluted weighted average number of shares | **202,018,679** | 201,806,069 | 201,503,802 |

| **Earnings (loss) per share** | Six months 2018 $m | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| Basic | **$0.38** | $0.34 | ($0.36) |
| Diluted | **$0.38** | $0.34 | ($0.36) |

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.

## 9. RELATED PARTY DISCLOSURES

### KEY MANAGEMENT COMPENSATION

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

| | Six months 2018 $m | Six months 2017 $m | Twelve months 2017 $m |
|---|---|---|---|
| Short-term compensation | **1.6** | 2.6 | 2.9 |
| Equity based compensation | **0.6** | 0.8 | 0.2 |
| Directors' fees and expenses | **1.0** | 1.1 | 2.1 |
| **Total** | **3.2** | 4.5 | 5.2 |

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans.

### TRANSACTIONS WITH ASSOCIATE

In 2013 KCML entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the period ended 30 June 2018 the Group recognised $2.0 million (30 June 2017 - $6.8 million; 31 December 2017 - $11.7 million) of service fees and profit commissions in other income in relation to this agreement.

During the period ended 30 June 2018, the Group committed $nil (30 June 2017 - $1.0 million; 31 December 2017 - $57.5 million) of capital to KHL. During the period ended 30 June 2018, KHL returned $20.5 million of capital to the Group (30 June 2017 - $25.5 million; 31 December 2017 - $38.4 million).

During the period ended 30 June 2018, a dividend of $nil was distributed to minority interest holders (30 June 2017 - $0.6 million, 31 December 2017 - $0.6 million).

## 10. COMMITMENTS

As at 30 June 2018 the Group has a commitment of $100.0 million (30 June 2017 - $100.0 million; 31 December 2017 - $100.0 million) relating to two credit facility funds.

## 11. SUBSEQUENT EVENTS

### DIVIDEND

On 25 July 2018 the Board of Directors declared the payment of an interim ordinary dividend of $0.05 per common share (approximately £0.03 pence per common share) to shareholders of record on 17 August 2018, with a settlement date of 12 September 2018. The total dividend payable, will be approximately $10.0 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

# Statement of Directors' responsibilities

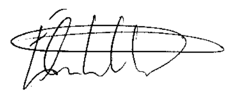
The Directors confirm to the best of their knowledge, that the unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the EU and where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, U.S GAAP have been considered and the interim management report herein includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, being:

- an indication of important events during the first six months of 2018 and their impact on the unaudited condensed interim consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- related party transactions that have taken place in the first six months of 2018 and that have materially affected the consolidated financial position or performance of LHL during that period, and any changes in the related party transactions described in the last Annual Report and Accounts that could have such a material effect.

The Directors also confirm that, in view of the unaudited condensed interim consolidated financial statements and the information contained within the interim management report, the business is a going concern. The Directors of the Company are listed on pages 44-45 of the LHL 2017 Annual Report and Accounts. The individuals responsible for authorising the responsibility statement on behalf of the Board on 25 July 2018 are:

**Peter Clarke**

**Director/Chairman**



**Elaine Whelan**

**Director/CFO**

## INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

**Conclusion**

We have been engaged by Lancashire Holdings Limited ("the Company") to review the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed interim consolidated statement of comprehensive income (loss), the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows, the risk and other disclosures and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of interim consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim consolidated financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in the basis of preparation on page 94 the annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of interim consolidted financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of interim consolidated financial statements in the half-yearly financial report based on our review.

**The purpose of our review work and to whom we owe our responsibilities**

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Rees Aronson

**Rees Aronson**
**for and on behalf of KPMG LLP**
*Chartered Accountants*
15 Canada Square
E14 5GL
25 July 2018

## Glossary

**Accident year loss ratio**

Ratio, in per cent, using the ultimate liability revalued at the current balance sheet date, divided by net premium earned

**Additional case reserves (ACR)**

Additional reserves deemed necessary by management

**AFS**

Available for sale

**AIM**

A sub-market of the LSE

**A.M. Best Company (A.M. Best)**

A.M Best is a full-service credit rating organisation dedicated to serving the financial services industries, focusing on the insurance sector

**Board of Directors**

Unless otherwise stated refers to the LHL Board of Directors

**Book value per share**

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

**BSX**

Bermuda Stock Exchange

**Cathedral;Cathedral Group**

Refers to CCL and all direct and indirect subsidiaries of CCL

**Ceded**

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

**CEO**

Chief Executive Officer

**CFO**

Chief Financial Officer

**Combined ratio**

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

**Deferred acquisition costs**

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

**Diluted EPS**

Calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive equity based compensation awards into common under the treasury stock method

**Directors fees and expenses**

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

**Duration**

Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation

**Earnings per share (EPS)**

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

**EBT**

Lancashire Holdings Employee Benefit Trust

**EU**

European Union

**Expense ratio**

Ratio, in per cent, of other operating expenses to net premiums earned

**Fully converted book value per share (FCBVS)**

Calculated by dividing the value of the total shareholders' equity and dilutive restricted stock units as calculated under the treasury method, by the sum of all shares, including equity compensation awards assuming all are exercised

**FVTPL**

Fair value through profit or loss

**Gross premiums written**

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

**The Group**

LHL and its subsidiaries

**IFRS**

International Financial Reporting Standard(s)

**Incurred but not reported (IBNR)**

These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses

**International Accounting Standard(s) (IAS)**

Standards, created by the IASB, for the preparation and presentation of financial statements

**International Accounting Standards Board (IASB)**

An international panel of accounting experts responsible for developing IAS and IFRS

**IRR**

Internal rate of return

**KCML**

Kinesis Capital Management Limited

**KCMMSL**

KCM Marketing Services Limited

## Glossary

KHL

Kinesis Holdings I Limited

Kinesis

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

LHL

Lancashire Holdings Limited

LICL

Lancashire Insurance Company Limited

Lloyd's

The Society of Lloyd's

Losses

Demand by an insured for indemnity under an insurance contract

LSE

London Stock Exchange

LUK

Lancashire Insurance Company (UK) Limited

Moody's Investor Service (Moody's)

Moody's is a leading provider of credit ratings, research and risk analysis

NAV

Net asset value

Net acquisition cost ratio

Ratio, in per cent, of net acquisition expenses to net premiums earned

Net loss ratio

Ratio, in per cent, of net insurance losses to net premiums earned

Net premiums written

Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

OTC

Over the counter

Return on Equity (RoE)

The IRR of the change in FCBVS in the period plus accrued dividends

RPI

Renewal Price Index

RSS

Restricted share scheme

S&P Global Ratings (S&P)

S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

Syndicate 2010

Lloyd's Syndicate 2010, managed by CUL. The group provides capital to support 57.8 per cent of the stamp

Syndicate 3010

Lloyd's Syndicate 3010, managed by CUL. The group provides capital to support 100.0 per cent of the stamp

Unearned premiums

The portion of premium income that is attributable to periods after the balance sheet date is deferred and amortised to future accounting periods

UK

United Kingdom

U.S.

United States of America

U.S. GAAP

Accounting principles generally accepted in the United States

## Note regarding forward-looking statements

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR HURRICANES HARVEY, IRMA AND MARIA AND THE EARTHQUAKES IN MEXICO THAT OCCURRED IN THE THIRD QUARTER OF 2017 AND THE WILDFIRES WHICH IMPACTED PARTS OF CALIFORNIA DURING 2017; THE IMPACT OF COMPLEX AND UNIQUE CAUSATION AND COVERAGE ISSUES ASSOCIATED WITH ATTRIBUTION OF LOSSES TO WIND OR FLOOD DAMAGE OR OTHER PERILS SUCH AS FIRE OR BUSINESS INTERRUPTION RELATING TO SUCH EVENTS; POTENTIAL UNCERTAINTIES RELATING TO REINSURANCE RECOVERIES, REINSTATEMENT PREMIUMS AND OTHER FACTORS INHERENT IN LOSS ESTIMATION; THE GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP; THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP'S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING 'SOFT' AS WELL AS 'HARD' MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, S&P GLOBAL RATINGS, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED MATURITY INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES, CURRENCY EXCHANGE RATES AND SECURITIES PRICES; CHANGES BY CENTRAL BANKS REGARDING THE LEVEL OF INTEREST RATES; THE IMPACT OF INFLATION OR DEFLATION IN RELEVANT ECONOMIES IN WHICH THE GROUP OPERATES; THE EFFECT, TIMING AND OTHER UNCERTAINTIES SURROUNDING FUTURE BUSINESS COMBINATIONS WITHIN THE INSURANCE AND REINSURANCE INDUSTRIES; THE IMPACT OF TERRORIST ACTIVITY IN THE COUNTRIES IN WHICH THE GROUP WRITES RISKS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN THE GROUP'S INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; LANCASHIRE OR ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF "BREXIT" (FOLLOWING THE UK'S NOTIFICATION TO THE EUROPEAN COUNCIL UNDER ARTICLE 50 OF THE TREATY ON EUROPEAN UNION ON 29 MARCH 2017) AND FUTURE NEGOTIATIONS REGARDING THE U.K'S RELATIONSHIP WITH THE E.U. ON THE GROUP'S BUSINESS, REGULATORY RELATIONSHIPS, UNDERWRITING PLATFORMS OR THE INDUSTRY GENERALLY.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE GROUP OR INDIVIDUALS ACTING ON BEHALF OF THE GROUP ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS NOTE. PROSPECTIVE INVESTORS SHOULD SPECIFICALLY CONSIDER THE FACTORS IDENTIFIED IN THIS RELEASE WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER BEFORE MAKING AN INVESTMENT DECISION.