

# LANCASHIRE HOLDINGS LIMITED

**GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS  
AND EXCLUDING WARRANT EXERCISES, OF 3.5% IN Q4 2015 AND 13.5% IN 2015;  
INCLUDING WARRANT EXERCISES OF 3.5% IN Q4 2015 AND 10.9% IN 2015**

**COMBINED RATIO OF 67.1% IN Q4 2015, 72.1% IN 2015  
FINAL ORDINARY DIVIDEND OF \$0.10 PER COMMON SHARE  
FULLY CONVERTED BOOK VALUE PER SHARE OF \$6.07 AS AT 31 DECEMBER 2015**

18 February 2016  
London, UK

Lancashire Holdings Limited (“Lancashire” or “the Group”) today announces its results for the fourth quarter of 2015 and the year ended 31 December 2015.

## Financial highlights:

	31 December 2015	31 December 2014
<b>Fully converted book value per share</b>	<b>\$6.07</b>	<b>\$6.96</b>
<b>Return on equity excluding warrant exercises<sup>1</sup> – Q4</b>	<b>3.5%</b>	<b>5.5%</b>
<b>Return on equity excluding warrant exercises<sup>1</sup> – YTD</b>	<b>13.5%</b>	<b>14.7%</b>
<b>Return on equity<sup>2</sup> – Q4</b>	<b>3.5%</b>	<b>5.4%</b>
<b>Return on equity<sup>2</sup> – YTD</b>	<b>10.9%</b>	<b>13.9%</b>
<b>Return on tangible equity<sup>3</sup> – Q4</b>	<b>4.0%</b>	<b>5.9%</b>
<b>Return on tangible equity<sup>3</sup> – YTD</b>	<b>11.8%</b>	<b>17.1%</b>
<b>Operating return on average equity – Q4</b>	<b>3.3%</b>	<b>5.7%</b>
<b>Operating return on average equity – YTD</b>	<b>12.0%</b>	<b>14.8%</b>
<b>Special dividends per common share<sup>4</sup></b>	<b>\$0.95</b>	<b>\$1.70</b>

<sup>1</sup> Return on equity excluding the impact of warrants exercised in the period.

<sup>2</sup> Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.

<sup>3</sup> Return on equity excluding goodwill and other intangible assets.

<sup>4</sup> See “Dividends” section below for Record Date and Dividend Payment Date.

**Financial highlights:**

	Q4		Year ended	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
<b>Highlights (\$m)</b>				
Gross premiums written	97.1	120.4	641.1	907.6
Net premiums written	87.3	110.3	481.7	742.8
Profit before tax	50.2	91.5	171.7	226.5
Profit after tax <sup>5</sup>	54.4	86.8	181.1	229.3
Comprehensive income <sup>5</sup>	45.0	83.5	169.8	227.2
Net operating profit <sup>5</sup>	45.8	89.4	173.4	231.9
<b>Per share data</b>				
Diluted earnings per share	\$0.27	\$0.44	\$0.91	\$1.16
Diluted earnings per share – operating	\$0.23	\$0.45	\$0.87	\$1.17
<b>Financial ratios</b>				
Total investment return including internal currency hedging	(0.2%)	0.2%	0.7%	1.0%
Total investment return excluding internal currency hedging	(0.2%)	0.1%	0.2%	0.7%
Net loss ratio	18.3%	12.2%	27.5%	31.7%
Combined ratio	67.1%	50.4%	72.1%	68.7%
Accident year loss ratio	30.6%	25.2%	46.0%	35.9%

<sup>5</sup> These amounts are attributable to Lancashire and exclude non-controlling interests.

**Martin Thomas, Chairman of Lancashire, commented:**

“As we have announced separately today, having served as a director on the Lancashire board for over nine years, and as Chariman since 2007, I will step down from both roles following this year’s annual general meeting (“AGM”) on 4 May 2016 in accordance with good governance practice. It has also been decided that Peter Clarke will assume the role of Chairman from that date.

It is a great pleasure to see the Group deliver another set of strong financial results for 2015 as I come towards the end of my tenure and I look forward to working with Alex, Elaine and other colleagues until I step down.”

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

“Within the context of one of the most difficult trading environments during the last twenty years, I am pleased to be able to announce what is an excellent set of results. The return on equity is 3.5% for the fourth quarter and 13.5% for the full year, on a warrant adjusted basis. As a business, we pride ourselves on our underwriting expertise and our ability to react nimbly to the challenges of the market so as to moderate our risk appetite and adjust our capital base to provide a good risk-adjusted return to our shareholders. The last year has witnessed a dramatic fall in the oil price, which severely shocked the whole energy sector, as well as volatility in the investment markets. Neither of these aspects of the world economy seems likely to stabilise in the near future. Furthermore, the over-accumulation of capital has continued to generate downwards pressure on the pricing of insurance and reinsurance risk over an extended period. Against this background, our industry witnessed a wave of mergers and acquisitions which we view as an attempt by some of the larger and more complex businesses in our sector to rationalise back office costs and achieve capital efficiencies.

Lancashire is not immune to the pressures faced by the market, but our strategic approach is distinctive because, rather than seeking top line premium growth, our focus continues to be on remaining relevant to our clients and brokers. In my view, this is the key to trading through the underwriting cycle. Our underwriters have worked hard to maintain and defend our excellent core book of business. In certain lines, such as the energy book, this means sharing to a degree our clients’ pain and settling for an acceptable lower return on less risk. In other lines, such as our property catastrophe and terror books, we have continued to produce decent returns, partly due to

low loss ratios – a product of yet another year of few major catastrophe losses within the most well developed insurance markets.

We have been particularly active this year in managing our overall risk levels through the purchase of well-priced reinsurance. Our excellent combined ratio of 72.1% for the full year is testament to the discipline and hard work carried out in this very challenging market to moderate our overall risk exposures. We do not consider top line premium growth to be a prudent objective for its own sake and we have endeavoured to avoid involvement in both broker underwriting facilities and the rapid growth in certain untried and untested lines of coverage. These are dangerous distractions. Our priority has been, and will remain to be, sticking to our stated strategy.

Part of that strategy is keeping our headcount small and nimble. That means everyone does their bit. I would therefore like to thank all our people, whether they are working for our Cathedral Lloyd's platform, our Lancashire London and Bermuda operations or our Kinesis third party reinsurance capital manager. This strong set of results is a tribute to their hard work and the exceptional expertise within our Group.

Finally, I look forward to continuing to work with Martin over the coming months, but for the time being I would like to thank him for his constructive challenge, his strategic insight, his diplomatic skills and on a personal level for his support and encouragement over many years."

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

"In a challenging year, I am happy to report a very respectable result for the fourth quarter due to strong underwriting performance, assisted in part by further favourable development in prior year reserves. Our warrant adjusted RoE of 3.5% and combined ratio of 67.1% represent an excellent result for the quarter in the current environment. All of our platforms contributed as expected to our warrant adjusted RoE of 13.5% for the year, with Cathedral contributing 3.4%, Kinesis 0.8% and the traditional Lancashire platform 9.3%. With our first decade of operations behind us, our compound annual return, after adjusting for the impact of warrants, is 18.8%.

Our outlook for 2016 remains to be a continuation of current market trends, with more pricing pressure, albeit at a slower rate. That said, we have been able to further reduce our exposure levels with additional reinsurance purchases, so we continue to believe we are well positioned for the current phase of the cycle. We are comfortable that at our current capital level we are able to write the business we want to and be ready for any opportunities that may materialise. We are therefore pleased to announce our standard final ordinary dividend of 10 cents per share. Including our interim and special dividend for 2015, we have returned 128.6% of comprehensive income for the year. Including all forms of capital return, we have now returned 103.6% of comprehensive income from inception."

**Lancashire Renewal Price Index for major classes**

The Lancashire Companies' Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects the Lancashire Companies' assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business and only covers business written by the Lancashire Companies to offer a consistent basis for analysis and therefore does not include Cathedral's Lloyd's business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2014:

Class	YTD 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Aviation (AV52)	94%	85%	98%	94%	94%
Gulf of Mexico energy	94%	n/a*	60%	95%	88%
Energy offshore worldwide	89%	98%	80%	83%	91%
Marine	90%	87%	92%	91%	91%
Property retrocession and reinsurance	89%	94%	93%	84%	89%
Terrorism	90%	88%	92%	92%	89%
<b>Combined</b>	<b>90%</b>	<b>90%</b>	<b>89%</b>	<b>89%</b>	<b>90%</b>

\*There was no renewing Gulf of Mexico energy business written in Q4 2015.

## Underwriting results

### Gross premiums written

	Q4				YTD			
	2015 \$m	2014 \$m	Change \$m	Change %	2015 \$m	2014 \$m	Change \$m	Change %
Property	27.8	24.7	3.1	12.6	197.2	263.0	(65.8)	(25.0)
Energy	15.0	30.8	(15.8)	(51.3)	112.0	239.4	(127.4)	(53.2)
Marine	9.2	8.2	1.0	12.2	47.6	67.7	(20.1)	(29.7)
Aviation	9.6	12.9	(3.3)	(25.6)	36.6	53.2	(16.6)	(31.2)
Lloyd's	35.5	43.8	(8.3)	(19.0)	247.7	284.3	(36.6)	(12.9)
<b>Total</b>	<b>97.1</b>	<b>120.4</b>	<b>(23.3)</b>	<b>(19.4)</b>	<b>641.1</b>	<b>907.6</b>	<b>(266.5)</b>	<b>(29.4)</b>

### Gross premiums earned

	Q4				YTD			
	2015 \$m	2014 \$m	Change \$m	Change %	2015 \$m	2014 \$m	Change \$m	Change %
Property	53.5	59.7	(6.2)	(10.4)	216.8	253.1	(36.3)	(14.3)
Energy	31.3	54.6	(23.3)	(42.7)	160.6	216.9	(56.3)	(26.0)
Marine	10.8	16.8	(6.0)	(35.7)	49.5	67.4	(17.9)	(26.6)
Aviation	11.0	14.9	(3.9)	(26.2)	43.0	57.9	(14.9)	(25.7)
Lloyd's	62.8	70.9	(8.1)	(11.4)	251.1	275.3	(24.2)	(8.8)
<b>Total</b>	<b>169.4</b>	<b>216.9</b>	<b>(47.5)</b>	<b>(21.9)</b>	<b>721.0</b>	<b>870.6</b>	<b>(149.6)</b>	<b>(17.2)</b>

Gross premiums written decreased by 19.4% in the fourth quarter of 2015 compared to the same period in 2014. In 2015, gross premiums written decreased by 29.4% compared to 2014. In absolute terms, the decrease in premiums for the quarter came from the energy and Lloyd's segments. For the year 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%. Gross premiums earned for the quarter and the year compared to 2014 decreased by 21.9% and 17.2% respectively. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 12.6% for the fourth quarter of 2015 compared to the same period in 2014 and decreased by 25.0% in 2015 compared to 2014. The increase in the quarter was driven by new business written in the political risk and terrorism books, offset somewhat by multi-year contracts written in the

fourth quarter of 2014 that are not yet due to renew. For the year, the property retrocession and catastrophe excess of loss, terrorism and political risk books all saw reductions due to the timing of multi-year contract renewals.

Energy gross premiums written decreased by 51.3% for the fourth quarter of 2015 compared to the same period in 2014 and decreased by 53.2% in 2015 compared to 2014. The worldwide offshore book was responsible for most of the decrease in the quarter with \$7.6 million of multi-year deals written in the fourth quarter of 2014 not yet due for renewal, in addition to some reductions in rates and exposures. 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% is significantly lower than the reduction in gross premiums written, reflecting the impact of continued earnings on the prior year multi-year deals. While year to date gross premiums written have decreased by 53.2%, 37.2% is due to the impact of multi-year deals.

Marine gross premiums written increased by 12.2% for the fourth quarter of 2015 compared to the same period in 2014 but decreased by 29.7% in 2015 compared to 2014. The increase in the quarter was due to the renewal of non-annual contracts written in 2013 in the marine hull book. The decrease for the year to date was due to 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 in the hull book.

Aviation gross premiums written decreased by 25.6% for the fourth quarter of 2015 compared to the same period in 2014 and decreased by 31.2% in the full year 2015 compared to 2014. The decreases are mainly due to the timing of satellite launches on contracts written in previous years.

In the Lloyd's segment gross premiums written decreased by 19.0% for the fourth quarter of 2015 compared to the same period in 2014 and decreased by 12.9% in 2015 compared to 2014. The decrease in the quarter was mainly in the energy and marine cargo books, due to the falling oil price and lower commodity prices. For the year to date, the decrease was 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.

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Ceded reinsurance premiums decreased by \$0.3 million, or 3.0%, for the quarter and decreased by \$5.4 million, or 3.3%, for 2015, in each case compared to the same periods in 2014. The Lancashire marine, energy and terrorism programmes were restructured in 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. Lancashire and Cathedral have both taken advantage of favourable conditions in the reinsurance market this year 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.

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Net premiums earned as a proportion of net premiums written were 117.7% in 2015 compared to 96.3% in 2014. The increased percentage was due to the impact of multi-year deals written in 2014 where we are seeing the benefit of earnings coming through on those deals in 2015. For the fourth quarter the proportion was 149.8% compared to 158.4% in the fourth quarter of 2014. Ignoring multi-year deals, the group wrote less business in the first half of the year, relative to 2014.

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The Group's net loss ratio for the fourth quarter of 2015 was 18.3% compared to 12.2% for the same period in 2014 and 27.5% for 2015 compared to 31.7% for 2014. The accident year loss ratio for the fourth quarter of 2015, including the impact of foreign exchange revaluations, was 30.6% compared to 25.2% for the same period in 2014 and 46.0% for 2015 compared to 35.9% in 2014. While there were no significant losses in the fourth quarter or in 2015, we experienced a few mid-sized claims across a number of our segments. Attritional losses have otherwise been relatively low. For the year ended 31 December 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 for the fourth quarter of 2015 was \$16.6 million, compared to \$25.0 million for the fourth quarter of 2014. Favourable development was \$107.7 million for 2015 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 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 year's loss development by class, excluding the impact of foreign exchange revaluations.

	Q4		YTD	
	2015 \$m	2014 \$m	2015 \$m	2014 \$m
Property	(4.7)	1.3	26.4	19.8
Energy	8.5	7.6	35.2	5.4
Marine	3.1	2.2	13.8	(9.7)
Aviation	0.6	0.4	2.9	0.9
Lloyd's	9.1	13.5	29.4	18.0
<b>Total</b>	<b>16.6</b>	<b>25.0</b>	<b>107.7</b>	<b>34.4</b>

Note: Positive numbers denote favourable development.

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

	Year ended 31 Dec 2015 \$m	Year ended 31 Dec 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	-
<b>Total</b>	<b>107.7</b>	<b>34.4</b>

Note: Positive numbers denote favourable development.

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

## Investments

Net investment income, excluding realised and unrealised gains and losses, was \$7.4 million for the fourth quarter of 2015, an increase of 2.8% from the fourth quarter of 2014. Net investment income was \$29.8 million for 2015, an increase of 4.2% 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 a loss of \$3.0 million for the fourth quarter of 2015 compared to a gain of \$3.7 million for the fourth quarter of 2014, and was a gain of \$14.4 million for 2015 compared to a gain of \$22.0 million for 2014.

The investment portfolio generated a loss of 0.2% during the fourth quarter of 2015 compared to a positive 0.2% in the fourth quarter of 2014. The fourth quarter returns for both 2014 and 2015 were negatively impacted by the widening of credit spreads, given the drop in oil prices and global growth concerns. However, returns in the fourth quarter of 2015 were further impacted by the rise in treasury rates, as a result of the Federal Reserve's decision to raise the Federal Funds rate.

For the year ended 31 December 2015 the investment portfolio returned 0.7%, 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, the investment portfolio return of 1.0% was generated primarily by a reduction in treasury yields, which offset the slight widening of investment grade credit spreads.

The corporate bond allocation represented 33.2% of managed invested assets at 31 December 2015 compared to 31.7% at 31 December 2014. At 31 December 2015 the Group's allocation to bank loans represented 5.9% of the portfolio compared to 5.8% at 31 December 2014.

The managed portfolio was as follows:

	<b>As at 31 December 2015</b>	<b>As at 31 December 2014</b>
Fixed income securities	81.6%	81.9%
Cash and cash equivalents	9.6%	10.6%
Hedge funds	8.0%	6.8%
Equity securities	0.8%	0.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Key investment portfolio statistics are:

	<b>As at 31 December 2015</b>	<b>As at 31 December 2014</b>
Duration	1.5 years	1.5 years
Credit quality	AA-	AA-
Book yield	1.6%	1.5%
Market yield	1.9%	1.5%

### Third party capital management

The reduction of \$0.2 million for the quarter and the increase of \$4.1 million for the 2015 share of profit of associates reflect Lancashire's 10% interest in the Kinesis vehicle. The share of profit of associates of \$1.6 million for the fourth quarter of 2014 and \$5.9 million for 2014 was related to the Kinesis vehicle and remaining interest in the Accordion vehicle.

Other income consists of the following items:

	<b>Q4</b>		<b>YTD</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Kinesis underwriting fees	1.5	1.9	5.6	6.2
Kinesis profit commission	0.1	-	7.3	-
Lloyd's managing agency fees & profit commission	3.4	6.2	7.0	10.1
Saltire profit commission	-	-	-	3.0
<b>Total</b>	<b>5.0</b>	<b>8.1</b>	<b>19.9</b>	<b>19.3</b>

The reduction in the Lloyd's managing agency fees and profit commission for both the quarter and year compared to 2014 is driven by the relative profitability of the underwriting years impacting each period. With the very profitable 2012 year of account closing in 2014, higher profit commissions were received.

### Other operating expenses

Operating expenses consist of the following items:

	Q4		YTD	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
Employee salaries and benefits	19.8	14.2	61.6	55.3
Payroll taxes and national insurance on equity compensation	0.2	0.2	2.7	(1.2)
Other operating expenses	10.7	12.6	42.3	48.8
Amortisation of intangible assets	-	-	-	8.4
<b>Total</b>	<b>30.7</b>	<b>27.0</b>	<b>106.6</b>	<b>111.3</b>

Employee remuneration costs for the fourth quarter and the year were \$5.6 million and \$6.3 million higher than the same periods in 2014. With the recent announcement of the incumbent CEO and CFO of Cathedral leaving the Group, an additional compensation expense has been recorded in the quarter. 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 quarter and the year. 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 \$1.9 million lower in the fourth quarter of 2015 compared to the fourth quarter of 2014. The fourth quarter of 2014 included consulting and legal fees, in addition to costs in relation to our London office relocation, that were non-recurring. Other operating expenses were lower in 2015 compared to the same period in the prior year primarily due to reduced donations from 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 was \$3.6 million in the fourth quarter of 2015 compared to \$8.9 million in the same period last year. For 2015 and 2014, the charges were \$15.8 million and \$23.3 million, respectively. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations.

### Capital

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% on total capital and 23.2% on total tangible capital. Total capital and total tangible capital at 31 December 2014 were \$1.683 billion and \$1.530 billion respectively.



## Warrants

All outstanding warrants to purchase Lancashire's common shares which were issued at inception were exercised prior to their expiry on 16 December 2015. Warrant exercises during the prior and current quarters were as follows:

	Number of Management Team Ordinary & Performance warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of Ordinary warrants	Total Number of warrants
<b>Outstanding and exercisable as at 31 December 2014</b>	676,662	15,032,679	648,143	2,350,000	<b>18,707,484</b>
Exercised during the period	(676,662)	(14,183,729)	-	(2,350,000)	(17,210,391)
<b>Outstanding and exercisable as at 31 March 2015</b>	-	848,950	648,143	-	<b>1,497,093</b>
Exercised during the period	-	(254,174)	(648,143)	-	(902,317)
<b>Outstanding and exercisable as at 30 June 2015</b>	-	594,776	-	-	<b>594,776</b>
Exercised during the period	-	-	-	-	-
<b>Outstanding and exercisable as at 30 September 2015</b>	-	594,766	-	-	<b>594,776</b>
Exercised during the period	-	(594,766)	-	-	<b>(594,766)</b>
<b>Outstanding and exercisable as at 31 December 2015</b>	-	-	-	-	-

## Dividends

The Lancashire Board declared the following dividends during 2015:

- A final dividend of \$0.10 and a special dividend of \$0.50 (both relating to 2014);
- An interim dividend of \$0.05 per common share; and
- A special dividend of \$0.95 per common share.

Lancashire today announces that its Board of Directors has declared a final dividend for 2015 of \$0.10 per common share (approximately £0.07 per common share at the current exchange rate), which will result in an aggregate payment of approximately \$19.8 million. The dividend will be paid in Pounds Sterling on 23 March 2016 (the "Dividend Payment Date") to shareholders of record on 26 February 2016 (the "Record Date") using the £ / \$ spot market exchange rate at 12 Noon London time on the Record Date.

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

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

**Note: In this release the term "Cathedral" means Cathedral Capital Limited (a wholly owned subsidiary of Lancashire) and its subsidiaries and the term "Lancashire Companies" means the subsidiaries of Lancashire excluding Cathedral.**

## Financial information

The Audited Consolidated Financial Statements for the year ended 31 December 2015 and the 2015 fourth quarter Financial Supplement are published on Lancashire's website at [www.lancashiregroup.com](http://www.lancashiregroup.com)

The Annual Report and Accounts are expected to be posted to shareholders no later than 14 March 2016 and will also be made available on the website.

### Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call at 1:00pm UK time / 8:00am EST on Thursday, 18 February 2016. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44(0)20 3427 1914 / +1 646 254 3360 with the confirmation code 7314709. The call can also be accessed via webcast, please go to our website ([www.lancashiregroup.com](http://www.lancashiregroup.com)) to access.

A telephone replay facility will be available for 30 days. The dial in number for the replay facility is +44(0)20 3427 0598 / +1 347 366 9565 with replay passcode 7314709. A webcast replay facility will also be accessible at [www.lancashiregroup.com](http://www.lancashiregroup.com)

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### About Lancashire

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

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

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

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

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

Lancashire has capital in excess of \$1.5 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate

headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

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

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

Kinesis Capital Management Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Cathedral Underwriting Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK. It is also authorised and regulated by Lloyd's.

#### **NOTE REGARDING RPI METHODOLOGY**

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

#### **NOTE REGARDING FORWARD-LOOKING STATEMENTS:**

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

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

FROM THE UK CFC REGIME; AND ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES.

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

## Consolidated statement of comprehensive income

	Quarter 4 2015 \$m	Quarter 4 2014 \$m	Year ended 2015 \$m	Year ended 2014 \$m
Gross premiums written	97.1	120.4	641.1	907.6
Outwards reinsurance premiums	(9.8)	(10.1)	(159.4)	(164.8)
<b>Net premiums written</b>	<b>87.3</b>	<b>110.3</b>	<b>481.7</b>	<b>742.8</b>
Change in unearned premiums	72.3	96.5	79.9	(37.0)
Change in unearned premiums on premiums ceded	(28.8)	(32.1)	5.5	9.8
<b>Net premiums earned</b>	<b>130.8</b>	<b>174.7</b>	<b>567.1</b>	<b>715.6</b>
Net investment income	7.4	7.2	29.8	28.6
Net other investment (losses) income	(0.2)	1.4	(1.3)	1.4
Net realised (losses) gains and impairments	(0.8)	(1.6)	(2.8)	(5.9)
Share of (loss) profit of associates	(0.2)	1.6	4.1	5.9
Other income	5.0	8.1	19.9	19.3
Net foreign exchange gains (losses)	2.6	3.3	(2.4)	(0.1)
<b>Total net revenue</b>	<b>144.6</b>	<b>194.7</b>	<b>614.4</b>	<b>764.8</b>
Insurance losses and loss adjustment expenses	24.1	19.7	177.5	237.9
Insurance losses and loss adjustment expenses recoverable	(0.1)	1.6	(21.8)	(11.4)
Net insurance acquisition expenses	33.1	39.7	146.2	153.4
Equity based compensation	3.6	8.9	15.8	23.3
Other operating expenses	30.7	27.0	106.6	111.3
<b>Total expenses</b>	<b>91.4</b>	<b>96.9</b>	<b>424.3</b>	<b>514.5</b>
<b>Results of operating activities</b>	<b>53.2</b>	<b>97.8</b>	<b>190.1</b>	<b>250.3</b>
Financing costs	3.0	6.3	18.4	23.8
<b>Profit before tax</b>	<b>50.2</b>	<b>91.5</b>	<b>171.7</b>	<b>226.5</b>
Tax credit (expense)	4.3	(4.5)	10.0	3.1
<b>Profit after tax</b>	<b>54.5</b>	<b>87.0</b>	<b>181.7</b>	<b>229.6</b>
Non-controlling interests	(0.1)	(0.2)	(0.6)	(0.3)
<b>Profit after tax attributable to Lancashire</b>	<b>54.4</b>	<b>86.8</b>	<b>181.1</b>	<b>229.3</b>
Net change in unrealised losses/gains on investments	(9.7)	(3.3)	(11.6)	(2.2)
Tax provision on net change in unrealised gains/losses on investments	0.3	-	0.3	0.1
<b>Other comprehensive loss</b>	<b>(9.4)</b>	<b>(3.3)</b>	<b>(11.3)</b>	<b>(2.1)</b>
<b>Other comprehensive income attributable to Lancashire</b>	<b>45.0</b>	<b>83.5</b>	<b>169.8</b>	<b>227.2</b>
Net loss ratio	18.3%	12.2%	27.5%	31.7%
Net acquisition cost ratio	25.3%	22.7%	25.8%	21.4%
Administrative expense ratio	23.5%	15.5%	18.8%	15.6%
<b>Combined ratio</b>	<b>67.1%</b>	<b>50.4%</b>	<b>72.1%</b>	<b>68.7%</b>
Basic earnings per share	0.27	0.46	0.93	1.24
Diluted earnings per share	0.27	0.44	0.91	1.16
Change in fully converted book value per share	3.5%	5.4%	10.9%	13.9%
Change in fully converted book value per share adjusted for warrants	3.5%	5.5%	13.5%	14.7%

## Consolidated balance sheet

	At at 31 December 2015 \$m	At at 31 December 2014 \$m
<b>Assets</b>		
Cash and cash equivalents	291.8	303.5
Accrued interest receivable	6.5	7.7
Investments	1,773.3	1,986.9
Inwards premiums receivable from insureds and cedants	253.7	316.2
Reinsurance assets		
-Unearned premiums on premiums ceded	30.2	24.7
-Reinsurance recoveries	83.9	112.4
-Other receivables	2.7	5.3
Other receivables	37.8	36.6
Corporation tax receivable	-	4.3
Investment in associate	47.5	52.7
Property, plant and equipment	7.2	9.1
Deferred acquisition costs	87.2	104.6
Intangible assets	153.8	153.8
<b>Total assets</b>	<b>2,775.6</b>	<b>3,117.8</b>
<b>Liabilities</b>		
Insurance contracts		
-Losses and loss adjustment expenses	671.0	752.6
-Unearned premiums	399.2	479.1
-Other payables	36.2	40.8
Amounts payable to reinsurers	26.6	34.2
Deferred acquisition costs ceded	0.3	0.1
Other payables	67.0	83.5
Corporation tax payable	1.8	-
Deferred tax liability	25.6	38.7
Interest rate swap	4.8	4.9
Long-term debt	322.3	326.6
<b>Total liabilities</b>	<b>1,554.8</b>	<b>1,760.5</b>
<b>Shareholders' equity</b>		
Share capital	100.7	96.1
Own shares	(30.4)	(43.3)
Other reserves	880.8	887.1
Accumulated other comprehensive (loss) income	(10.5)	0.8
Retained earnings	279.7	416.1
<b>Total shareholders' equity attributable to equity shareholders of LHL</b>	<b>1,220.3</b>	<b>1,356.8</b>
Non-controlling interest	0.5	0.5
<b>Total shareholders' equity</b>	<b>1,220.8</b>	<b>1,357.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,775.6</b>	<b>3,117.8</b>
Basic book value per share	\$6.16	\$7.24
Fully converted book value per share	\$6.07	\$6.96

## Statement of consolidated cash flows

	Year ended 2015 \$m	Year ended 2014 \$m
<b>Cash flows from operating activities</b>		
Profit before tax	171.7	226.5
Tax refunded	4.4	1.0
Depreciation	1.9	2.1
Amortisation of intangible asset	–	23.4
Interest expense on long-term debt	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	15.8	23.3
Foreign exchange losses	10.8	7.3
Share of profit of associates	(4.1)	(5.9)
Net other investment loss (income)	1.3	(1.4)
Net realised losses (gains) and impairments	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)
<b>Net cash flows from operating activities</b>	<b>98.1</b>	<b>212.5</b>
<b>Cash flows from investing activities</b>		
Interest and dividends received	42.1	52.0
Net purchase of property, plant and equipment	–	(8.7)
Investment in associates	9.3	17.9
Purchase of investments	(990.8)	(2,153.7)
Proceeds on sale of investments	1,173.5	2,159.0
<b>Net cash flows from investing activities</b>	<b>234.1</b>	<b>66.5</b>
<b>Cash flows used in financing activities</b>		
Interest paid	(15.2)	(15.5)
Dividends paid	(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)
Repurchase of shares from non-controlling interest	–	(1.1)
<b>Net cash flows used in financing activities</b>	<b>(338.0)</b>	<b>(365.0)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5.8)</b>	<b>(86.0)</b>
Cash and cash equivalents at the beginning of year	303.5	403.0
Effect of exchange rate fluctuations on cash and cash equivalents	(5.9)	(13.5)
<b>Cash and cash equivalents at end of year</b>	<b>291.8</b>	<b>303.5</b>