# LANCASHIRE HOLDINGS LIMITED

## CHANGE IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF (1.9)% IN Q3 2018 AND 3.9% YEAR TO DATE
## COMBINED RATIO OF 135.2% IN Q3 2018 AND 86.9% YEAR TO DATE
## SPECIAL DIVIDEND OF $0.20 PER COMMON SHARE
## FULLY CONVERTED BOOK VALUE PER SHARE OF $5.54 AS AT 30 SEPTEMBER 2018

1 November 2018
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the third quarter of 2018 and the nine months ended 30 September 2018.

**Financial highlights**

| | 30 September 2018 | 30 September 2017 |
|---|---|---|
| **Fully converted book value per share** | **$5.54** | **$5.53** |
| **Return on equity[1] – Q3** | **(1.9)%** | **(10.4)%** |
| **Return on equity[1]– YTD** | **3.9 %** | **(5.1)%** |
| **Return on tangible equity[2] – Q3** | **(2.2)%** | **(11.9)%** |
| **Return on tangible equity[2] – YTD** | **4.5 %** | **(5.8)%** |
| **Operating return on average equity – Q3** | **(2.2)%** | **(11.6)%** |
| **Operating return on average equity – YTD** | **4.8 %** | **(7.0)%** |
| **Special dividend per common share[3]** | **$0.20** | – |

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | 30 September 2018 | 30 September 2017 | 30 September 2018 | 30 September 2017 |
| ***Highlights ($m)*** | | | | |
| Gross premiums written | 115.2 | 143.0 | 507.7 | 524.2 |
| Net premiums written | 86.3 | 106.1 | 320.3 | 345.9 |
| (Loss) profit before tax | (25.3) | (136.4) | 49.6 | (69.7) |
| (Loss) profit after tax[1] | (24.2) | (134.2) | 51.6 | (65.7) |
| Comprehensive (loss) income[1] | (23.3) | (131.7) | 41.1 | (57.1) |
| Net operating (loss) profit[1] | (24.6) | (139.0) | 53.7 | (82.9) |
| ***Per share data*** | | | | |
| Diluted (loss) earnings per share | ($0.12) | ($0.67) | $0.26 | ($0.33) |
| Diluted (loss) earnings per share - operating | ($0.12) | ($0.69) | $0.27 | ($0.41) |
| ***Financial ratios*** | | | | |
| Total investment return (including internal currency hedging) | 0.5% | 0.6% | 0.9% | 2.1% |
| Net loss ratio | 77.2% | 175.4% | 33.1% | 79.2% |
| Combined ratio | 135.2% | 213.3% | 86.9% | 126.4% |
| Accident year loss ratio | 116.0% | 193.2% | 61.3% | 96.7% |

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

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

"The third quarter of 2018 was at least as active as 2017 in terms of the number of events to impact the industry. The magnitude of insured loss, however, has been much smaller. We have, nonetheless, produced a small loss for the quarter as a result of these events. While it's always disappointing to lose money in any quarter, we remain in positive territory for the year to date. The loss events during the quarter are a well understood part of our business model; we are prepared for such events and they lie within our risk expectations.

Overall, rates are directionally up on last year and, pleasingly, we continue to see rates improving across our specialty lines of business. In our property catastrophe lines, recent loss events may stimulate that market to maintain more discipline over pricing in the run up to the January 1 renewals. While optically our gross premiums written have declined in the third quarter, rate increases and growth in the quarter are masked by the impact of quarter on quarter reinstatement premiums plus the impact of the timing of renewal of some multi-year deals in addition to exposure adjustments on prior underwriting year contracts. We have again added new business in the quarter, including across the new teams we have recruited into the Group this year.

With the market in a state of flux, and as others in the market exit lines of business that are underperforming, we are well positioned to build out our offering by attracting high-calibre underwriters to our team where we see opportunities. We have also recently seen Lloyd's take a tougher stance on the need for market underwriting discipline and for a return to pricing levels which are fundamentally profitable. The Group's philosophy has, for many years, stressed the central importance of disciplined underwriting and we have a record of tailoring our income levels and our exposures accordingly and therefore welcome these actions.

I believe we will have a growth opportunity in 2019 in our specialty lines. The risk exposures in our property catastrophe lines are likely to remain at similar levels as for 2018, although we remain open to opportunities in these classes too.

Finally, I am pleased that we will be paying our shareholders a special dividend of $0.20 per share."

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

"In an active quarter for both risk losses and natural catastrophes, we experienced a number of losses - none individually material, but the accumulation of loss events resulted in a negative return on equity for the Group. Our return of negative 1.9% for the third quarter brings us to a return on equity of 3.9% for the year to date. Our year to date combined ratio stands at 86.9%. Our investment portfolio performed well through further interest rate increases and volatility, producing a return of 0.5% for the quarter.

Our outlook for 2019 is a continuation of current market trends. We expect to maintain our core book of business and continue to expand our specialty insurance lines of business. While we will take advantage of any opportunities we see in the reinsurance lines, due to further enhancements in our reinsurance program, we do not anticipate needing any more capital for those. We are therefore returning approximately $40.0 million of capital via a special dividend. That represents 97.3% of comprehensive income for the year to date. We have now returned $2.8 billion or 108.4% of total comprehensive income since inception. We will, as ever, monitor our capital needs on an on-going basis."

### Renewal Price Index for major classes

The Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects our assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business, to offer a consistent basis for analysis. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2017, with our Lloyd's segment shown separately in order to aid comparability:

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

| Class | YTD 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|
| Aviation (AV52) | 99 % | 100 % | 100 % | 96 % |
| Gulf of Mexico energy* | 101 % | _ | 101 % | 110 % |
| Energy offshore worldwide | 103 % | 103 % | 103 % | 103 % |
| Marine | 98 % | 100 % | 97 % | 97 % |
| Property retrocession and reinsurance | 107 % | 100 % | 103 % | 111 % |
| Terrorism | 99 % | 99 % | 99 % | 100 % |
| **Lancashire (excluding Lloyd's segment)** | **104%** | **105%** | **101%** | **105%** |

* There was no renewing Gulf of Mexico energy business written in the third quarter of 2018.

**RPI Lloyd's segment**

| Class | YTD 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|
| Aviation | 103 % | 105 % | 105 % | 102 % |
| Energy | 103 % | 104 % | 103 % | 102 % |
| Marine | 103 % | 104 % | 104 % | 101 % |
| Property retrocession and reinsurance | 107 % | 102 % | 107 % | 108 % |
| Terrorism | 99 % | 99 % | 99 % | 99 % |
| **Lloyd's segment** | **106%** | **106%** | **107%** | **106%** |

## Underwriting results

### Gross premiums written

| | Q3 | | | | YTD | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change | Change | 2018 | 2017 | Change | Change |
| | $m | $m | $m | % | $m | $m | $m | % |
| Property | 32.4 | 46.8 | (14.4) | (30.8) | 176.5 | 177.0 | (0.5) | (0.3) |
| Energy | 20.3 | 24.4 | (4.1) | (16.8) | 88.1 | 96.8 | (8.7) | (9.0) |
| Marine | 1.4 | 15.3 | (13.9) | (90.8) | 25.3 | 58.4 | (33.1) | (56.7) |
| Aviation | 6.3 | 5.3 | 1.0 | 18.9 | 15.1 | 12.9 | 2.2 | 17.1 |
| Lloyd’s | 54.8 | 51.2 | 3.6 | 7.0 | 202.7 | 179.1 | 23.6 | 13.2 |
| **Total** | **115.2** | **143.0** | **(27.8)** | **(19.4)** | **507.7** | **524.2** | **(16.5)** | **(3.1)** |

Gross premiums written decreased by 19.4% in the third quarter of 2018 compared to the same period in 2017. For the first nine months of 2018, gross premiums written decreased by 3.1% compared to the first nine months of 2017. The reduction reflects the higher level of reinstatement premiums in 2017 arising from the 2017 catastrophe events, in addition to multi-year deals written in our property and energy segments in 2017 that were not yet due to renew. The Group’s five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 30.8% for the third quarter of 2018 compared to the same period in 2017 and decreased by 0.3% in the first nine months of 2018 compared to the first nine months of 2017. The third quarter of 2017 included $7.0 million of reinstatement premiums in connection with hurricanes Harvey, Irma and Maria and also included multi-year deals in the property catastrophe and political risk classes that were not yet due to renew. For the first nine months of 2018, property gross premiums written were broadly flat. The property segment experienced growth from new business and rate increases across most classes. However, that growth was offset by reductions due to multi-year contracts not yet due to renew in the property catastrophe and political risk classes and the reinstatement premiums mentioned above.

Energy gross premiums written decreased by 16.8% for the third quarter of 2018 compared to the same period in 2017 and decreased by 9.0% in the first nine months of 2018 compared to the first nine months of 2017. The dollar movement for the quarter was small and mainly due to multi-year contracts written in the offshore energy class in 2017 that were not yet due to renew. The decrease for the first nine months of 2018 was mainly due to multi-year contracts written in the Gulf of Mexico and offshore energy class in 2017 that were not yet due to renew, plus the restructuring of an existing Gulf of Mexico multi-year deal. These reductions were offset somewhat by new business in the onshore energy class and exposure increases on prior underwriting year risk-attaching business in the energy construction class.

Marine gross premiums written decreased by 90.8% for the third quarter of 2018 compared to the same period in 2017 and decreased by 56.7% in the first nine months of 2018 compared to the first nine months of 2017. The decrease for the quarter and the first nine months of the year was mainly due to the timing of non-annual contract renewals and the prior periods being more impacted by increases in exposure on risk-attaching business from prior underwriting years. There was also less pro-rata business written in both the quarter and the first nine months of the year compared to the prior year.

Aviation gross premiums written increased by 18.9% for the third quarter of 2018 compared to the same period in 2017 and increased by 17.1% in the first nine months of 2018 compared to the first nine months of 2017. The dollar movement for both the quarter and the first nine months to 30 September was small and was primarily due to increased exposure on prior underwriting year risk-attaching business.

In the Lloyd's segment gross premiums written increased by 7.0% for the third quarter of 2018 compared to the same period in 2017 and increased by 13.2% in the first nine months of 2018 compared to the first nine months of 2017. While there were increases across most lines of business for both the quarter and the first nine months of 2018, the majority of the increase was driven by the property direct and facultative, marine and aviation books due to improved rates, new business and exposure increases on prior underwriting year risk-attaching business. These were partly offset by lower reinstatement premiums. The third quarter of 2017 included $10.0 million of reinstatement premiums in connection with hurricanes Harvey, Irma and Maria plus the Mexican earthquakes.

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Ceded reinsurance premiums decreased by $8.0 million, or 21.7%, for the third quarter of 2018 compared to the same period in 2017 and increased by $9.1 million, or 5.1%, for the first nine months of 2018 compared to the first nine months of 2017. The decrease in spend for the quarter was primarily due to lower reinstatement premiums plus some timing impacts, with some additional cover being purchased earlier in the year. For the nine months to 30 September 2018 the increased spend was primarily due to a combination of rate increases and the additional cover purchased, offset partially by lower reinstatement premiums.

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Net premiums earned decreased by $30.1 million for the third quarter of 2018 compared to the same period in 2017 and $27.4 million for the first nine months of 2018 compared to the first nine months of 2017. The decrease in both the quarter and the first nine months was primarily driven by lower net reinstatement premiums in 2018 compared to 2017. In addition for the third quarter and the first nine months of 2017 there was a greater impact from positive adjustments to underlying exposures on prior year risk-attaching business. Net premiums earned as a proportion of net premiums written was 103.0% in the third quarter of 2018 compared to 112.2% for the same period in 2017 and 95.8% in the nine months to 30 September 2018 compared to 96.7% in the same period of 2017. The decrease in the earnings percentage for the third quarter of 2018 reflected a higher proportion of outwards reinsurance premiums ceded during the first half of 2018 compared to the corresponding period in 2017. The earnings ratios were relatively stable on an annual basis.

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As previously reported on 8 October, during the third quarter of 2018 the Group had exposure to loss events within its marine portfolio. In addition, the Group suffered an accumulation of attritional losses as a result of exposures to a number of recent natural catastrophe events, including hurricane Florence and typhoons Jebi, Mangkhut and Trami. While individually these risk losses and natural catastrophe events were below thresholds that would ordinarily warrant disclosure, due to their combined financial impact, they were previously announced. The third quarter of 2017 was characterised by significant catastrophe activity, in the form of hurricanes Harvey, Irma and Maria, in addition to two earthquakes in Mexico.

As a result, the Group's net loss ratio for the third quarter of 2018 was 77.2% compared to 175.4% for the same period in 2017 and 33.1% for the first nine months of 2018 compared to 79.2% for the same period in 2017. The accident year loss ratio for the third quarter of 2018, including the impact of foreign exchange revaluations, was 116.0% compared to 193.2% for the same period in 2017 and 61.3% for the first nine months of 2018 compared to 96.7% for the same period in 2017.

Our net losses recorded for the third quarter of 2018 in relation to the combined risk and natural catastrophe events noted above, excluding the impact of inwards and outwards reinstatement premiums, were $57.3 million. While reserves have been recorded, uncertainty exists on the eventual ultimate losses in relation to the hurricane and typhoons as loss information after these types of events can take some time to obtain. The Group's reserve estimate for these natural catastrophe events was derived from a combination of market data and assumptions, a limited number of provisional loss advices, limited client loss data and modeled loss projections. As additional information emerges, the Group's actual ultimate loss may vary, perhaps materially, from the current reported reserves. The final settlement of all these claims is likely to take place over a considerable period of time.

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 two earthquakes in Mexico, was $138.5 million at 30 September 2018 compared to $153.8 million at 30 September 2017.

There were no other significant net losses for the quarter or first nine months of either year.

Excluding the impact of foreign exchange evaluations, the following table shows the impact of the current accident year events noted above on the Group's loss ratio:

| | QTD 2018 | | YTD 2018 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss ratio %** | **Losses $m** | **Loss ratio %** |
| Reported at 30 September 2018 | 68.6 | 77.2% | 101.5 | 33.1% |
| Absent natural catastrophe events | 29.2 | 33.4% | 62.1 | 20.3% |
| Absent large marine losses | 50.7 | 50.6% | 83.6 | 26.3% |
| Absent these combined events | 11.3 | 11.5% | 44.2 | 14.0% |

Note: The table does not sum to a total due to the impact of reinstatement premiums.

As reported in the Group's results for the third quarter of 2017, excluding the impact of foreign exchange evaluations, the following table shows the impact of prior year catastrophe events on the Group's loss ratio:

| | QTD 2017 | | YTD 2017 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss ratio %** | **Losses $m** | **Loss ratio %** |
| Reported at 30 September 2017 | 208.7 | 175.4% | 264.8 | 79.2% |
| Absent hurricane Harvey | 157.6 | 135.5% | 213.7 | 64.4% |
| Absent hurricane Irma | 151.2 | 129.3% | 207.3 | 62.4% |
| Absent hurricane Maria | 175.1 | 146.5% | 231.2 | 69.0% |
| Absent Mexico earthquakes | 197.1 | 165.6% | 253.2 | 75.7% |
| Absent all catastrophe events | 54.9 | 47.9% | 111.0 | 33.6% |

Note: The table does not sum to a total due to the impact of reinstatement premiums.

Prior year favourable development for the third quarter of 2018 was $35.2 million, compared to $19.9 million for the third quarter of 2017, and $87.0 million for the first nine months of 2018 compared to $57.7 million for the same period in 2017. The favourable development in all periods was primarily due to general IBNR releases across most lines of business due to a lack of reported claims. The first nine months of 2018 also included a reduction on some prior accident year property and energy reserves.

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

| | Q3 | | YTD | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **$m** | **$m** | **$m** | **$m** |
| Property | 18.6 | 7.5 | 37.0 | 17.7 |
| Energy | 6.4 | 5.9 | 36.3 | 16.1 |
| Marine | 2.4 | 3.1 | 7.4 | 14.6 |
| Aviation | 0.2 | 0.7 | 1.2 | 2.4 |
| Lloyd's | 7.6 | 2.7 | 5.1 | 6.9 |
| **Total** | **35.2** | **19.9** | **87.0** | **57.7** |

Note: Positive numbers denote favourable development.

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

| | **Nine months ended 30 September 2018** | **Nine months ended 30 September 2017** |
|---|---|---|
| | **$m** | **$m** |
| 2008 accident year and prior | 2.5 | 0.7 |
| 2009 accident year | 10.8 | 0.2 |
| 2010 accident year | 1.7 | 2.0 |
| 2011 accident year | 4.7 | 8.8 |
| 2012 accident year | 6.8 | 3.4 |
| 2013 accident year | 3.0 | 2.6 |
| 2014 accident year | 2.5 | 4.5 |
| 2015 accident year | 4.6 | 18.7 |
| 2016 accident year | 26.3 | 16.8 |
| 2017 accident year | 24.1 | – |
| **Total** | **87.0** | **57.7** |

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 45.0% at 30 September 2018 compared to 53.9% at 30 September 2017.

**Investments**

Net investment income, excluding realised and unrealised gains and losses, was $8.9 million for the third quarter of 2018, an increase of 11.3% from the third quarter of 2017. Net investment income was $24.8 million for the first nine months of 2018, an increase of 9.3% compared to the same period in 2017. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a gain of $8.9 million for the third quarter of 2018 compared to a gain of $11.3 million for the third quarter of 2017 and a gain of $14.3 million for the first nine months of 2018 compared to a gain of $38.4 million for the same period in 2017.

The investment portfolio returned 0.5% during the quarter as coupon returns and corporate credit spread narrowing offset the increase in treasury yields on our fixed maturity portfolios. Portfolio returns were supported by strong returns in our bank loan, structured note and equity portfolios. Our short-treasury futures position also helped mitigate some of the impact of rising interest rates. During the third quarter of 2017, the Group's investment portfolio generated a return of 0.6% as the Group's fixed maturity portfolio generated modest returns as the slight increase in treasury yields was offset by the narrowing of credit spreads and coupon income. The portfolio return also benefited from strong returns from the hedge fund, bank loan and equity portfolios.

Despite the negative impact on our fixed maturity returns from the increase in treasury yields and the modest widening of investment grade credit spreads, the portfolio has returned 0.9% on a year-to-date basis. Investment returns have been supported by the Group's risk assets and our short treasury futures position, which has lessened the impact of the increase in interest rates throughout 2018. The investment portfolio produced a return of 2.1% for the first nine months of 2017 despite the increase in treasury yields due to the narrowing of credit spreads, coupon income and strong returns in the Group's risk asset portfolios.

The corporate bond allocation represented 28.5% of managed invested assets at 30 September 2018 compared to 32.1% at 30 September 2017.

The managed portfolio was as follows:

| | As at 30 September 2018 | As at 31 December 2017 | As at 30 September 2017 |
|---|---|---|---|
| Fixed maturity securities | 84.6 % | 80.1 % | 80.7 % |
| Cash and cash equivalents | 5.3 % | 10.2 % | 9.6 % |
| Hedge funds | 8.8 % | 8.4 % | 8.5 % |
| Equity securities | 1.3 % | 1.3 % | 1.2 % |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

Key investment portfolio statistics were:

| | As at 30 September 2018 | As at 31 December 2017 | As at 30 September 2017 |
|---|---|---|---|
| Duration | 1.6 years | 1.7 years | 1.8 years |
| Credit quality | AA- | AA- | A+ |
| Book yield | 2.4% | 2.0% | 2.0% |
| Market yield | 2.9% | 2.1% | 2.0% |

**Lancashire Third Party Capital Management**

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

| | Q3 2018 $m | Q3 2017 $m | YTD 2018 $m | YTD 2017 $m |
|---|---|---|---|---|
| Kinesis underwriting fees | 2.7 | 2.2 | 4.7 | 3.6 |
| Kinesis profit commission | – | 0.5 | – | 5.9 |
| Lloyd’s fees & profit commission | 0.5 | 0.4 | 1.3 | 1.5 |
| **Total other income** | **3.2** | **3.1** | **6.0** | **11.0** |
| Share of profit (loss) of associate | 2.3 | (13.1) | (0.1) | (11.7) |
| **Total net third party capital managed income** | **5.5** | **(10.0)** | **5.9** | **(0.7)** |

The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. Following the significant catastrophe activity during the second half of 2017, and resulting trapped collateral, there was no recognition in the first nine months of 2018 of any profit commission for the 2017 underwriting cycles. The higher Kinesis underwriting fees in 2018 reflect the higher level of premiums under management compared to 2017. The share of profit (loss) of associate reflects Lancashire’s 10% equity interest in the Kinesis vehicle. The loss during the third quarter of 2017 was entirely driven by the significant catastrophe activity in that quarter. 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:

| | Q3 | | YTD | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **$m** | **$m** | **$m** | **$m** |
| Employee remuneration costs | 11.0 | 2.8 | 41.9 | 31.0 |
| Other operating expenses | 10.0 | 10.2 | 29.9 | 32.0 |
| **Total** | **21.0** | **13.0** | **71.8** | **63.0** |

Employee remuneration costs for the third quarter and for the first nine months of 2018 were $8.2 million and $10.9 million higher than the respective periods in 2017. The increase was primarily the result of unusually low variable compensation charges in 2017 due to the significant catastrophe losses in the third quarter of 2017.

Other operating expenses for the third quarter and for the first nine months of 2018 were $0.2 million and $2.1 million lower than the respective periods in 2017. The reduction for the nine months to 30 September 2018 was primarily due to lower software costs offset somewhat by higher consulting fees incurred during the first quarter of 2018.

**Equity based compensation**

The equity based compensation expense was $2.0 million in the third quarter of 2018 compared to a credit of $2.9 million in the same period last year and $5.8 million for the first nine months of 2018 compared to a credit of $0.1 million in the same period last year. The equity based compensation charge was driven by anticipated vesting levels of active awards based on current performance expectations. A lower equity based compensation charge was recorded in the third quarter and first nine months of 2017 primarily due to incorporating the third quarter loss into the performance estimates combined with the lapsing of awards of former Cathedral employees on departure from the Group.

**Capital**

As at 30 September 2018, total capital available to Lancashire was $1.447 billion, comprising shareholders' equity of $1.122 billion and $324.9 million of long-term debt. Tangible capital was $1.293 billion. Leverage was 22.5% on total capital and 25.1% on total tangible capital. Total capital and total tangible capital as at 30 September 2017 were $1.441 billion and $1.288 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 third quarter of 2018, the Lancashire Board of Directors declared an interim dividend in respect of 2018 of $0.05 (approximately £0.03) per common share. The dividend, totalling $10.1 million, was paid on 12 September 2018 to shareholders of record on 17 August 2018.

Lancashire announces that its Board of Directors has declared a special dividend for 2018 of $0.20 per common share (approximately (£0.15) per common share at the current exchange rate), which will result in an aggregate payment of approximately $40.0 million. The dividend will be paid in Pounds Sterling on 12 December 2018 (the "Dividend Payment Date") to shareholders of record on 9 November 2018 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

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

**Financial information**

**The 2018 third quarter Financial Supplement is published on Lancashire's website at www.lancashiregroup.com.**

**Analyst and Investor Earnings Conference Call**

There will be an analyst and investor conference call on the results at 1:00pm UK time / 9:00am EDT on Thursday 1 November 2018. The conference call will be hosted by Lancashire management.

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

| | |
|---|---|
| **United Kingdom - Toll free / Freephone:** | 0800 358 6377 |
| **United Kingdom - Local:** | +44 (0)330 336 9127 |
| **United States / Canada - Toll free / Freephone:** | 888-220-8451 |
| **United States - Local:** | +1 646-828-8193 |
| **Canada - Local:** | +1 647 484 0475 |
| **Confirmation Code:** | **4396709** |

The call can also be accessed via webcast, please go to our website at:
https://www.lancashiregroup.com/en/investors.html or https://edge.media-server.com/m6/p/cw5jr5n3 to register and access.

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

For further information, please contact:


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|---|---|
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**About Lancashire**

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

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

(1) Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.
(2) Long Term Issuer Rating applies to Lancashire Holdings Limited.

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

Lancashire has capital in excess of $1.4 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

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

The UK Prudential Regulation Authority ("PRA") is the Group Supervisor of the Lancashire Group.

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority ("BMA") in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA in the UK.

Kinesis Capital Management Limited is regulated by the BMA in Bermuda.

Cathedral Underwriting Limited is authorised by the PRA and regulated by the FCA and the PRA in the UK. It is also authorised and regulated by Lloyd's.

This release contains information, which may be of a price sensitive nature, that Lancashire is making public in a manner consistent with the EU Market Abuse Regulation and other regulatory obligations. The information was submitted for publication, through the agency of the contact persons set out above, at 07.00 GMT on 1 November 2018.

**NOTE REGARDING RPI METHODOLOGY**

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

**NOTE REGARDING FORWARD-LOOKING STATEMENTS:**

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR HURRICANE FLORENCE, THE TYPHOONS AND MARINE LOSSES THAT OCCURRED IN THE THIRD QUARTER OF 2018, HURRICANE MICHAEL WHICH OCCURRED IN THE FOURTH QUARTER OF 2018, 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 THE FOURTH QUARTER OF 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 UK'S RELATIONSHIP WITH THE EU ON THE GROUP'S BUSINESS, REGULATORY RELATIONSHIPS, UNDERWRITING PLATFORMS OR THE INDUSTRY GENERALLY.

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

## Consolidated statement of comprehensive (loss) income

| | Q3 2018 $m | Q3 2017 $m | YTD 2018 $m | YTD 2017 $m |
|---|---|---|---|---|
| Gross premiums written | 115.2 | 143.0 | 507.7 | 524.2 |
| Outwards reinsurance premiums | (28.9) | (36.9) | (187.4) | (178.3) |
| **Net premiums written** | **86.3** | **106.1** | **320.3** | **345.9** |
| Change in unearned premiums | 34.9 | 36.4 | (52.6) | (46.9) |
| Change in unearned premiums on premiums ceded | (32.3) | (23.5) | 39.3 | 35.4 |
| **Net premiums earned** | **88.9** | **119.0** | **307.0** | **334.4** |
| Net investment income | 8.9 | 8.0 | 24.8 | 22.7 |
| Net other investment (losses) income | (0.6) | 0.4 | 2.5 | (1.5) |
| Net realised (losses) gains and impairments | (0.3) | 0.5 | (2.3) | 8.6 |
| Share of profit (loss) of associate | 2.3 | (13.1) | (0.1) | (11.7) |
| Other income | 3.2 | 3.1 | 6.0 | 11.0 |
| Net foreign exchange (losses) gains | (0.6) | 1.2 | (2.0) | 3.1 |
| **Total net revenue** | **101.8** | **119.1** | **335.9** | **366.6** |
| Insurance losses and loss adjustment expenses | 117.2 | 336.7 | 168.3 | 413.8 |
| Insurance losses and loss adjustment expenses recoverable | (48.6) | (128.0) | (66.8) | (149.0) |
| Net insurance acquisition expenses | 30.6 | 32.1 | 93.3 | 95.0 |
| Equity based compensation | 2.0 | (2.9) | 5.8 | (0.1) |
| Other operating expenses | 21.0 | 13.0 | 71.8 | 63.0 |
| **Total expenses** | **122.2** | **250.9** | **272.4** | **422.7** |
| **Results of operating activities** | **(20.4)** | **(131.8)** | **63.5** | **(56.1)** |
| Financing costs | 4.9 | 4.6 | 13.9 | 13.6 |
| **(Loss) profit before tax** | **(25.3)** | **(136.4)** | **49.6** | **(69.7)** |
| Tax credit | 1.3 | 2.3 | 2.1 | 4.4 |
| **(Loss) profit after tax** | **(24.0)** | **(134.1)** | **51.7** | **(65.3)** |
| Non-controlling interests | (0.2) | (0.1) | (0.1) | (0.4) |
| **(Loss) profit after tax attributable to Lancashire** | **(24.2)** | **(134.2)** | **51.6** | **(65.7)** |
| Net change in unrealised gains/losses on investments | 0.9 | 2.4 | (10.7) | 8.6 |
| Tax (charge) credit on net change in unrealised gains/losses on investments | – | 0.1 | 0.2 | – |
| **Other comprehensive (loss) income** | **0.9** | **2.5** | **(10.5)** | **8.6** |
| **Total comprehensive (loss) income attributable to Lancashire** | **(23.3)** | **(131.7)** | **41.1** | **(57.1)** |
| Net loss ratio | 77.2 % | 175.4 % | 33.1% | 79.2 % |
| Net acquisition cost ratio | 34.4 % | 27.0 % | 30.4% | 28.4 % |
| Administrative expense ratio | 23.6 % | 10.9 % | 23.4% | 18.8 % |
| **Combined ratio** | 135.2 % | 213.3 % | 86.9% | 126.4 % |
| Basic (loss) earnings per share | $ (0.12) | $ (0.67) | $ 0.26 | $ (0.33) |
| Diluted (loss) earnings per share | $ (0.12) | $ (0.67) | $ 0.26 | $ (0.33) |
| Change in fully converted book value per share | (1.9)% | (10.4)% | 3.9% | (5.1)% |

## Consolidated balance sheet

| | As at 30 September 2018 $m | As at 30 September 2017 $m | As at 31 December 2017 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 170.7 | 280.0 | 256.5 |
| Accrued interest receivable | 6.4 | 7.1 | 6.1 |
| Investments | 1,741.8 | 1,702.3 | 1,654.6 |
| Inwards premiums receivable from insureds and cedants | 310.0 | 361.8 | 297.9 |
| Reinsurance assets | | | |
| - Unearned premiums on premiums ceded | 80.5 | 69.3 | 41.2 |
| - Reinsurance recoveries | 266.4 | 251.5 | 284.1 |
| - Other receivables | 19.5 | 12.7 | 20.7 |
| Other receivables | 34.3 | 43.3 | 42.4 |
| Corporation tax receivable | 0.3 | – | – |
| Interest rate swap | 0.3 | – | – |
| Investment in associate | 38.8 | 12.8 | 59.4 |
| Property, plant and equipment | 1.6 | 3.0 | 2.6 |
| Deferred acquisition costs | 77.2 | 86.9 | 76.7 |
| Intangible assets | 153.8 | 153.8 | 153.8 |
| **Total assets** | **2,901.6** | **2,984.5** | **2,896.0** |
| **Liabilities** | | | |
| Insurance contracts | | | |
| - Losses and loss adjustment expenses | 862.6 | 890.9 | 933.5 |
| - Unearned premiums | 403.5 | 420.4 | 350.9 |
| - Other payables | 33.2 | 55.2 | 40.7 |
| Amounts payable to reinsurers | 77.9 | 83.0 | 65.5 |
| Deferred acquisition costs ceded | 4.0 | 1.1 | 2.5 |
| Other payables | 59.1 | 71.4 | 48.0 |
| Corporation tax payable | – | 0.4 | 2.8 |
| Deferred tax liability | 14.4 | 17.0 | 16.5 |
| Interest rate swap | – | 3.0 | 2.0 |
| Long-term debt | 324.9 | 325.4 | 326.3 |
| **Total liabilities** | **1,779.6** | **1,867.8** | **1,788.7** |
| **Shareholders' equity** | | | |
| Share capital | 100.7 | 100.7 | 100.7 |
| Own shares | (4.9) | (13.2) | (12.1) |
| Other reserves | 862.7 | 867.7 | 866.2 |
| Accumulated other comprehensive loss | (12.0) | 2.2 | (1.5) |
| Retained earnings | 175.1 | 159.0 | 153.6 |
| **Total shareholders' equity attributable to equity shareholders of Lancashire** | **1,121.6** | **1,116.4** | **1,106.9** |
| Non-controlling interest | 0.4 | 0.3 | 0.4 |
| **Total shareholders' equity** | **1,122.0** | **1,116.7** | **1,107.3** |
| **Total liabilities and shareholders' equity** | **2,901.6** | **2,984.5** | **2,896.0** |
| Basic book value per share | $5.59 | $5.58 | $5.53 |
| Fully converted book value per share | $5.54 | $5.53 | $5.48 |