LANCASHIRE HOLDINGS LIMITED

REDUCTION IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 10.4% IN Q3 2017 AND 5.1% YEAR TO DATE
COMBINED RATIO OF 213.3% IN Q3 2017, 126.4% YEAR TO DATE
FULLY CONVERTED BOOK VALUE PER SHARE OF $5.53 AS AT 30 SEPTEMBER 2017

2 November 2017
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the third quarter of 2017 and the nine months ended 30 September 2017.

Financial highlights

	30 September 2017	30 September 2016
Fully converted book value per share	**$5.53**	**$6.55**
Return on equity[1] – Q3	**(10.4)%**	**3.1%**
Return on equity[1]– YTD	**(5.1)%**	**10.5%**
Return on tangible equity [2] – Q3	**(11.9)%**	**3.7%**
Return on tangible equity [2] – YTD	**(5.8)%**	**12.2%**
Operating return on average equity – Q3	**(11.6)%**	**3.1%**
Operating return on average equity – YTD	**(7.0)%**	**7.6%**
Special dividend per common share	–	**$0.75**

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on tangible equity excludes goodwill and other intangible assets.

	Three months ended		Nine months ended	
	30 September 2017	**30 September 2016**	**30 September 2017**	**30 September 2016**
Highlights ($m)				
Gross premiums written	143.0	108.2	524.2	538.8
Net premiums written	106.1	92.0	345.9	370.6
(Loss) profit before tax	(136.4)	42.9	(69.7)	99.5
(Loss) profit after tax[1]	(134.2)	42.9	(65.7)	102.7
Comprehensive (loss) income[1]	(131.7)	41.6	(57.1)	123.3
Net operating (loss) profit[1]	(139.0)	40.1	(82.9)	98.1
Per share data				
Diluted (loss) earnings per share	($0.67)	$0.21	($0.33)	$0.51
Diluted (loss) earnings per share - operating	($0.69)	$0.20	($0.41)	$0.49
Financial ratios				
Total investment return including internal currency hedging	0.6%	0.6%	2.1%	2.2%
Net loss ratio	175.4%	25.3%	79.2%	28.0%
Combined ratio	213.3%	73.8%	126.4%	75.6%
Accident year loss ratio	193.2%	29.6%	96.7%	45.0%

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

Alex Maloney, Group Chief Executive Officer, commented:

"In July I reported on the generally lower level of catastrophe losses during 2017 and the resultant continued downwards pricing pressures on insurance risk. In contrast, the last couple of months have witnessed a series of damaging hurricanes in the Caribbean, the Gulf of Mexico and U.S. coastal regions and two significant earthquakes in Mexico. These have tragically devastated and disrupted lives and livelihoods, wreaking havoc in communities and businesses. These events have been a stark reminder that we operate in the risk business. We offer insurance and reinsurance products which respond to catastrophic loss events which are irregular and unpredictable in their short term frequency and severity. At such times Lancashire expects to pay losses, and this is reflected in our results for the third quarter and the year to date.

These events also show the value of our strategic priorities. Our discipline as underwriters means that we prioritise the appropriate risk selection for all stages of the insurance cycle. In risk management we continuously monitor and moderate our net risk exposures, in particular through the use of a sensibly structured reinsurance programme. In our capital management we ensure that we hold sufficient capital to meet the current and future needs of our business, returning to our investors the capital we do not need for our business requirements.

Although it is still too early for the precise quantification of market losses, it is clear that catastrophe underwriters industry-wide have experienced losses of many billions of dollars, which will have depleted capital and stressed balance sheets across the global insurance sector. For Lancashire our estimated net losses fall comfortably within our expectations for such catastrophe events, serving as further evidence of our disciplined approach to underwriting.

After many years of soft pricing conditions we are at last seeing some evidence of an increase in pricing, particularly in catastrophe exposed lines. The first major test of the market dynamics will be the year-end insurance and reinsurance renewal round. Many product lines will be loss-affected and I would expect to see a return across the sector to more disciplined underwriting standards and pricing which reflects the true risks and exposures.

At Lancashire we pride ourselves on understanding the insurance cycle. Whilst there can be no guarantee of a market improvement, I believe that we are now entering a period where market dynamics dictate that there should be a meaningful adjustment to the pricing of the products we sell. In previous years, following uneventful wind seasons, Lancashire has returned surplus capital to its shareholders by way of a special dividend. That is not the case this year. I am confident that the likely change in underwriting conditions affords us an opportunity to deploy the capital which we hold more advantageously, both to service the needs of our clients and their brokers and to continue creating long term value for our shareholders. Lancashire's strategy remains to maximise risk-adjusted returns across the insurance cycle."

Elaine Whelan, Group Chief Financial Officer, commented:

"The third quarter of 2017 witnessed an extraordinary level of loss activity. With the occurrence of hurricanes Harvey, Irma and Maria and the Mexican earthquakes, the industry has incurred substantial losses. We have recorded a net loss across our three platforms from these events of $165.0 million, after recoveries and the impact of inwards and outwards reinstatement premiums. Our RoE is negative 10.4% and our combined ratio is 213.3% for the third quarter of 2017. Our RoE for the year to date is negative 5.1%. While we have incurred a loss in the quarter and for the year to date, we anticipate an improvement in rates following these events. Our outlook for 2018 is more positive than it has been for some time. We therefore do not intend to declare a special dividend this year; we expect to put all of our capital to work to take advantage of improving market conditions. However, we will continue to pay our standard ordinary dividend, in line with our stated dividend policy."

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 2016, with our Lloyd's segment shown separately in order to aid comparability:

RPI Lancashire (excluding Lloyd's segment)

Class	YTD 2017	Q3 2017	Q2 2017	Q1 2017
Aviation (AV52)	90 %	92 %	90 %	90 %
Gulf of Mexico energy*	93 %	–	93 %	88 %
Energy offshore worldwide	97 %	87 %	104 %	94 %
Marine	89 %	93 %	88 %	89 %
Property retrocession and reinsurance	95 %	95 %	97 %	94 %
Terrorism	94 %	95 %	93 %	94 %
Lancashire (excluding Lloyd's segment)	**94%**	**93%**	**95%**	**93%**

*There was no renewing Gulf of Mexico energy business written in the third quarter of 2017.

RPI (Lloyd's segment)

Class	YTD 2017	Q3 2017	Q2 2017	Q1 2017
Aviation	99 %	103 %	102 %	96 %
Energy	97 %	100 %	97 %	95 %
Marine	97 %	98 %	98 %	97 %
Property retrocession and reinsurance	96 %	97 %	94 %	97 %
Terrorism	91 %	94 %	97 %	91 %
Lloyd's segment	**97%**	**97%**	**97%**	**97%**

Underwriting results

Gross premiums written

	Q3				YTD			
	2017	**2016**	**Change**	**Change**	**2017**	**2016**	**Change**	**Change**
	$m	**$m**	**$m**	**%**	**$m**	**$m**	**$m**	**%**
Property	46.8	39.7	7.1	17.9	177.0	190.4	(13.4)	(7.0)
Energy	24.4	14.1	10.3	73.0	96.8	102.4	(5.6)	(5.5)
Marine	15.3	4.9	10.4	212.2	58.4	32.4	26.0	80.2
Aviation	5.3	11.0	(5.7)	(51.8)	12.9	28.2	(15.3)	(54.3)
Lloyd's	51.2	38.5	12.7	33.0	179.1	185.4	(6.3)	(3.4)
Total	**143.0**	**108.2**	**34.8**	**32.2**	**524.2**	**538.8**	**(14.6)**	**(2.7)**

Gross premiums written increased by 32.2% in the third quarter of 2017 compared to the same period in 2016. In 2017 to date, gross premiums written decreased by 2.7% compared to the first nine months of 2016. Gross premiums earned increased by 14.2% in the third quarter of 2017 compared to the same period in 2016 and decreased by 2.7% in the first nine months of 2017 compared to the same period in 2016. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 17.9% for the third quarter of 2017 compared to the same period in 2016 and decreased by 7.0% in the first nine months of 2017 compared to the first nine months of 2016. The increase for the quarter was primarily due to $7.0 million of reinstatement premiums in connection with hurricanes Harvey, Irma and Maria. The decrease for the year to date is primarily due to multi-year contracts in the property catastrophe, political risk and terrorism classes which were written in 2016 that are not yet due to renew. This reduction was partly offset by the reinstatement premiums mentioned above, some multi-year contract renewals, new business written in the property catastrophe book and some new business written in the political risk book. Business flow in the political risk class is generally less predictable than other classes due to the specific nature of each deal.

Energy gross premiums written increased by 73.0% for the third quarter of 2017 compared to the same period in 2016 and decreased by 5.5% in the first nine months of 2017 compared to the first nine months of 2016. The increase in the quarter was due to exposure increases on prior underwriting year risk-attaching business and some non-annual deals renewing in the worldwide offshore book. The decrease for the year to date was mainly due to the timing and renewal of non-annual deals in the worldwide offshore book, partly offset by exposure increases on prior underwriting year risk-attaching business.

Marine gross premiums written increased by 212.2% for the third quarter of 2017 compared to the same period in 2016 and increased by 80.2% in the first nine months for 2017 compared to the first nine months of 2016. The majority of the increase for the quarter and the year to date was due to the timing of non-annual renewals together with an increase in prior underwriting year risk-attaching business due to changes in the underlying exposure. There was also some new pro-rata business written.

Aviation gross premiums written decreased by 51.8% for the third quarter of 2017 compared to the same period in 2016 and decreased by 54.3% in the first nine months of 2017 compared to the first nine months of 2016. The decrease for the quarter and the year to date was due to exposure reductions in the satellite book and on prior underwriting year risk-attaching business in the AV52 book.

In the Lloyd's segment gross premiums written increased by 33.0% for the third quarter of 2017 compared to the same period in 2016 and decreased by 3.4% in the first nine months of 2017 compared to the first nine months of 2016. The increase for the quarter was primarily due to $10.0 million of reinstatement premiums in connection with hurricanes Harvey, Irma and Maria plus the Mexican earthquakes. The decrease for the year to date was driven by the property, energy and terrorism books as rates remained under pressure due to overcapacity in the market, partially offset by the increase in reinstatement premiums during the quarter.

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Ceded reinsurance premiums increased by $20.7 million, or 127.8%, for the third quarter compared to the same period in 2016 and increased by $10.1 million, or 6.0%, for the first nine months ended 30 September 2017 compared to the corresponding period in 2016. The increased spend for the quarter and year to date is primarily due to reinstatement premiums in connection with hurricanes Harvey, Irma and Maria plus the Mexican earthquakes, together with some additional limit purchased and the timing of certain renewals.

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Net premiums earned as a proportion of net premiums written was 112.2% in the third quarter of 2017 compared to 118.8% for the same period in 2016 and 96.7% in the nine months to 30 September 2017 compared to 97.1% in the same period in 2016. With fairly consistent volumes, and less impact from multi-year deals and reinsurance renewal timings, the earnings ratios are relatively stable.

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The third quarter of 2017 was characterised by significant catastrophe activity, in the form of hurricanes Harvey, Irma and Maria, in addition to the two earthquakes in Mexico. As a result, the Group's net loss ratio for the third quarter of 2017 was 175.4% compared to 25.3% for the same period in 2016 and 79.2% for the nine months ended 30 September 2017 compared to 28.0% for the same period in 2016. The accident year loss ratio for the third quarter of 2017, including the impact of foreign exchange revaluations, was 193.2% compared to 29.6% for the same period in 2016 and 96.7% for the nine months ended 30 September 2017 compared to 45.0% for the same period in 2016.

Our net losses recorded for the quarter in relation to the catastrophe events above, excluding the impact of inwards and outwards reinstatement premiums and our share of losses from Kinesis, was $153.8 million. While reserves have been recorded, significant uncertainty exists on the eventual ultimate losses in relation to the hurricanes and earthquakes as loss information after these types of events can take some time to obtain. The Group's reserve estimate 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 claims is likely to take place over a considerable period of time.

There were no other significant net losses during the first nine months of 2017. Other than some mid-sized energy losses during the first half of 2016, there were no significant net losses in either the third quarter or the first nine months of 2016.

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

	Q3		**YTD**	
	Losses	**Loss ratio**	**Losses**	**Loss ratio**
	$m	**%**	**$m**	**%**
Reported loss ratio 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 2017 was $19.9 million, compared to favourable development of $4.9 million for the third quarter of 2016. Favourable development was $57.7 million for the nine months ended 30 September 2017, compared to favourable development of $61.9 million for the same period in 2016. 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 third quarter of 2016 saw some deterioration on one specific marine loss.

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

	Q3		**YTD**	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Property	7.5	9.0	17.7	30.6
Energy	5.9	3.0	16.1	20.7
Marine	3.1	(8.0)	14.6	1.3
Aviation	0.7	0.8	2.4	3.2
Lloyd's	2.7	0.1	6.9	6.1
Total	**19.9**	**4.9**	**57.7**	**61.9**

Note: Positive numbers denote favourable development.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2017 and 2016:

	Nine months ended 30 September 2017	**Nine months ended 30 September 2016**
	$m	**$m**
2007 accident year and prior	0.4	(0.7)
2008 accident year	0.3	1.1
2009 accident year	0.2	0.4
2010 accident year	2.0	1.8
2011 accident year	8.8	8.2
2012 accident year	3.4	4.8
2013 accident year	2.6	(4.8)
2014 accident year	4.5	13.7
2015 accident year	18.7	37.4
2016 accident year	16.8	–
Total	**57.7**	**61.9**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 53.9% at 30 September 2017 compared to 37.0% at 30 September 2016.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $8.0 million for the third quarter of 2017, an increase of 14.3% from the third quarter of 2016. Net investment income was $22.7 million for the first nine months of 2017, a decrease of 1.3% compared to the same period in 2016. 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 $11.3 million for the third quarter of 2017 compared to a gain of $11.6 million for the third quarter of 2016 and a gain of $38.4 million for the first nine months of 2017 compared to a gain of $41.6 million for the same period in 2016.

The Group's investment portfolio generated a return of 0.6% during the third quarter of 2017 and 2.1% for the first nine months of 2017. During the third quarter of 2017 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. The third quarter of 2016 produced the same overall return of 0.6%, driven by very similar factors.

Despite the increase in treasury yields in the first nine months of 2017, the investment portfolio produced a return of 2.1% due to the narrowing of credit spreads, coupon income and strong returns in the Group's risk-asset portfolios. For the first nine months of 2016, the Group's investment portfolio return of 2.2% was driven by the notable decline in treasury yields and narrowing of credit spreads, benefiting the fixed maturity, bank loan and equity portfolios.

The corporate bond allocation represented 32.1% of managed invested assets at 30 September 2017 compared to 30.7% at 30 September 2016.

The managed portfolio was as follows:

	As at 30 September 2017	As at 31 December 2016	As at 30 September 2016
Fixed maturity securities	80.7 %	81.4 %	82.4 %
Cash and cash equivalents	9.6 %	10.4 %	9.1 %
Hedge funds	8.5 %	7.0 %	6.8 %
Equity securities	1.2 %	1.2 %	1.7 %
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics were:

	As at 30 September 2017	As at 31 December 2016	As at 30 September 2016
Duration	1.8 years	1.8 years	1.7 years
Credit quality	A+	A+	AA-
Book yield	2.0%	1.8%	1.7%
Market yield	2.0%	1.9%	1.5%

Lancashire Third Party Capital Management

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

	Q3		YTD	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Kinesis underwriting fees	2.2	2.2	3.6	3.3
Kinesis profit commission	0.5	–	5.9	3.2
Lloyd’s fees & profit commission	0.4	0.8	1.5	3.7
Total other income	**3.1**	**3.0**	**11.0**	**10.2**
Share of (loss) profit of associate	(13.1)	2.7	(11.7)	4.4
Total third party capital managed (loss) income	**(10.0)**	**5.7**	**(0.7)**	**14.6**

The Kinesis profit commission is driven by the timing of loss experience and collateral release and therefore varies from quarter to quarter. The higher Kinesis profit commission for the year to date is due to the timing of recognition of a loss amount for the January 2015 underwriting cycle which resulted in the continuing retention of some collateral and consequently lower profit commission recognised in 2016. The share of loss of associate for the third quarter and year to date 2017 reflects Lancashire’s 10% equity interest in the Kinesis vehicle and is entirely driven by the significant catastrophe activity in the quarter. The reduction in 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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Employee remuneration costs	2.8	14.7	31.0	46.8
Other operating expenses	10.2	9.2	32.0	28.3
Total	**13.0**	**23.9**	**63.0**	**75.1**

Employee remuneration costs for the third quarter and first nine months of 2017 were $11.9 million and $15.8 million lower than the respective periods in 2016. The lower compensation charges are primarily driven by lower variable compensation in addition to a benefit from the depreciation of Sterling relative to the prior year.

Other operating expenses for both the third quarter and first nine months of 2017 were $1.0 million and $3.7 million higher than the respective periods in 2016. The increase for the quarter and year to date is due to the timing of certain expenses. The increase for the year to date also includes some additional software costs.

Equity based compensation

A credit of $2.9 million was recorded for equity based compensation in the third quarter of 2017 compared to an expense of $1.7 million in the same period last year and a credit of $0.1 million for the first nine months of 2017 compared to an expense of $10.1 million in the same period last year. The equity based compensation charge is driven by anticipated vesting levels of active awards based on current performance expectations. The decrease in the quarter was due to incorporating the third quarter loss into the performance estimates combined with the lapsing of awards of former Cathedral employees on their departure from the Group.

Capital

As at 30 September 2017, total capital available to Lancashire was $1.441 billion, comprising shareholders' equity of $1.116 billion and $325.4 million of long-term debt. Tangible capital was $1.288 billion. Leverage was 22.6% on total capital and 25.3% on total tangible capital. Total capital and total tangible capital as at 30 September 2016 were $1.644 billion and $1.490 billion respectively.

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.

Dividends

During the third quarter of 2017, the Lancashire Board of Directors declared an interim dividend in respect of 2017 of $0.05 (approximately £0.04) per common share. The dividend, totalling $10.0 million, was paid on 6 September 2017 to shareholders of record on 11 August 2017.

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

Financial information

Further details of our 2017 third quarter results can be obtained from our Financial Supplement. This can be accessed via our website 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 2nd November 2017. 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:

US	+1 646 254 3362
US toll free	1877 280 2342
UK	+44(0)20 3427 1900
UK toll free	0800 279 4977
Toronto, Canada	+1 416 216 4141
Confirmation Code:	**5091989**

The call can also be accessed via webcast, please go to our website at:
http://www.lancashiregroup.com/en/investors.html or https://edge.media-server.com/m6/p/bj72m29w to register.

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

For further information, please contact:

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About Lancashire

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

	Financial Strength Rating (1)	**Financial Strength Outlook(1)**	**Long Term Issuer Rating (2)**
A.M. Best	A (Excellent)	Stable	bbb
S&P Global Ratings	A-	Positive	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 2nd November 2017.

NOTE REGARDING RPI METHODOLOGY

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ACTUAL DEVELOPMENT OF LOSSES AND EXPENSES IMPACTING ESTIMATES FOR HURRICANES HARVEY, IRMA AND MARIA AND THE EARTHQUAKES IN MEXICO, THAT OCCURRED IN THE THIRD QUARTER OF 2017; 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; A CYCLICAL DOWNTURN 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; 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; ANY CHANGE IN UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME OR OTHER TAX CHANGES; AND THE IMPACT OF THE "BREXIT" VOTE 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.

Consolidated statement of comprehensive (loss) income

	Q3 2017 $m	Q3 2016 $m	YTD 2017 $m	YTD 2016 $m
Gross premiums written	143.0	108.2	524.2	538.8
Outwards reinsurance premiums	(36.9)	(16.2)	(178.3)	(168.2)
Net premiums written	**106.1**	**92.0**	**345.9**	**370.6**
Change in unearned premiums	36.4	48.9	(46.9)	(48.2)
Change in unearned premiums on premiums ceded	(23.5)	(31.6)	35.4	37.5
Net premiums earned	**119.0**	**109.3**	**334.4**	**359.9**
Net investment income	8.0	7.0	22.7	23.0
Net other investment income (losses)	0.4	4.0	(1.5)	3.5
Net realised gains (losses) and impairments	0.5	1.9	8.6	(5.5)
Share of (loss) profit of associate	(13.1)	2.7	(11.7)	4.4
Other income	3.1	3.0	11.0	10.2
Net foreign exchange gains	1.2	0.8	3.1	3.5
Total net revenue	**119.1**	**128.7**	**366.6**	**399.0**
Insurance losses and loss adjustment expenses	336.7	43.9	413.8	178.8
Insurance losses and loss adjustment expenses recoverable	(128.0)	(16.2)	(149.0)	(78.1)
Net insurance acquisition expenses	32.1	29.1	95.0	96.1
Equity based compensation	(2.9)	1.7	(0.1)	10.1
Other operating expenses	13.0	23.9	63.0	75.1
Total expenses	**250.9**	**82.4**	**422.7**	**282.0**
Results of operating activities	**(131.8)**	**46.3**	**(56.1)**	**117.0**
Financing costs	4.6	3.4	13.6	17.5
(Loss) profit before tax	**(136.4)**	**42.9**	**(69.7)**	**99.5**
Tax credit	2.3	0.1	4.4	3.4
(Loss) profit after tax	**(134.1)**	**43.0**	**(65.3)**	**102.9**
Non-controlling interests	(0.1)	(0.1)	(0.4)	(0.2)
(Loss) profit after tax attributable to Lancashire	**(134.2)**	**42.9**	**(65.7)**	**102.7**
Net change in unrealised gains/losses on investments	2.4	(1.3)	8.6	21.2
Tax provision on net change in unrealised gains/ losses on investments	0.1	–	–	(0.6)
Other comprehensive income (loss)	**2.5**	**(1.3)**	**8.6**	**20.6**
Total comprehensive (loss) income attributable to Lancashire	**(131.7)**	**41.6**	**(57.1)**	**123.3**
Net loss ratio	175.4 %	25.3%	79.2 %	28.0%
Net acquisition cost ratio	27.0 %	26.6%	28.4 %	26.7%
Administrative expense ratio	10.9 %	21.9%	18.8 %	20.9%
Combined ratio	213.3 %	73.8%	126.4 %	75.6%
Basic (loss) earnings per share	$ (0.67)	$ 0.22	$ (0.33)	$ 0.52
Diluted (loss) earnings per share	$ (0.67)	$ 0.21	$ (0.33)	$ 0.51
Change in fully converted book value per share	(10.4)%	3.1%	(5.1)%	10.5%

Consolidated balance sheet

	As at 30 September 2017 $m	As at 30 September 2016 $m	As at 31 December 2016 $m
Assets			
Cash and cash equivalents	280.0	289.8	308.8
Accrued interest receivable	7.1	6.6	6.6
Investments	1,702.3	1,842.9	1,648.4
Inwards premiums receivable from insureds and cedants	361.8	315.0	270.0
Reinsurance assets			
- Unearned premiums on premiums ceded	69.3	67.7	33.9
- Reinsurance recoveries	251.5	149.9	136.7
- Other receivables	12.7	15.0	16.5
Other receivables	43.3	41.2	43.6
Corporation tax receivable	–	–	1.1
Investment in associate	12.8	26.5	49.7
Property, plant and equipment	3.0	5.8	5.3
Deferred acquisition costs	86.9	93.2	81.5
Intangible assets	153.8	153.8	153.8
Total assets	**2,984.5**	**3,007.4**	**2,755.9**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	890.9	708.7	679.8
- Unearned premiums	420.4	447.4	373.5
- Other payables	55.2	38.9	37.4
Amounts payable to reinsurers	83.0	64.2	52.7
Deferred acquisition costs ceded	1.1	0.7	0.4
Other payables	71.4	71.6	61.0
Corporation tax payable	0.4	3.2	–
Deferred tax liability	17.0	21.1	18.7
Interest rate swap	3.0	7.0	3.7
Long-term debt	325.4	323.4	320.9
Total liabilities	**1,867.8**	**1,686.2**	**1,548.1**
Shareholders’ equity			
Share capital	100.7	100.7	100.7
Own shares	(13.2)	(24.8)	(23.2)
Other reserves	867.7	882.4	881.6
Accumulated other comprehensive income (loss)	2.2	10.1	(6.4)
Retained earnings	159.0	352.6	254.6
Total shareholders’ equity attributable to equity shareholders of LHL	**1,116.4**	**1,321.0**	**1,207.3**
Non-controlling interest	0.3	0.2	0.5
Total shareholders’ equity	**1,116.7**	**1,321.2**	**1,207.8**
Total liabilities and shareholders’ equity	**2,984.5**	**3,007.4**	**2,755.9**
Basic book value per share	$5.58	$6.64	$6.07
Fully converted book value per share	$5.53	$6.55	$5.98

Consolidated statements of cash flows

	Nine months 2017	Nine months 2016	Twelve months 2016
	$m	$m	$m
Cash flows (used in) from operating activities			
(Loss) profit before tax	(69.7)	99.5	150.4
Tax refunded (paid)	1.3	(1.3)	(1.3)
Depreciation	1.6	1.7	2.3
Interest expense on long-term debt	12.2	12.2	15.6
Interest and dividend income	(28.1)	(29.1)	(38.5)
Net amortisation of fixed maturity securities	2.5	3.9	5.0
Equity based compensation	(0.1)	10.1	10.7
Foreign exchange losses	6.2	(1.4)	(2.3)
Share of (loss) profit of associate	11.7	(4.4)	(5.1)
Net other investment losses (gains)	1.5	(3.5)	(6.9)
Net realised (gains) losses and impairments	(8.6)	5.5	2.4
Net unrealised (gains) losses on interest rate swaps	(0.7)	2.2	(1.1)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	51.0	(62.7)	(71.7)
- Other assets and liabilities	15.0	7.8	(10.6)
Net cash flows (used in) from operating activities	**(4.2)**	**40.5**	**48.9**
Cash flows from investing activities			
Interest and dividends received	27.6	29.0	38.4
Purchase of property, plant and equipment	(0.5)	(0.3)	(0.4)
Investment in associate	25.2	25.4	2.9
Purchase of investments	(843.9)	(992.8)	(1,214.0)
Proceeds on sale of investments	809.5	940.1	1,341.8
Net cash flows from investing activities	**17.9**	**1.4**	**168.7**
Cash flows used in financing activities			
Interest paid	(14.0)	(13.5)	(15.4)
Dividends paid	(29.9)	(29.8)	(178.9)
Dividends paid to minority interest holders	(0.6)	(0.5)	(0.5)
Distributions by trust	(3.8)	(2.9)	(2.9)
Net cash flows used in financing activities	**(48.3)**	**(46.7)**	**(197.7)**
Net (decrease) increase in cash and cash equivalents	**(34.6)**	**(4.8)**	**19.9**
Cash and cash equivalents at the beginning of year	308.8	291.8	291.8
Effect of exchange rate fluctuations on cash and cash equivalents	5.8	2.8	(2.9)
Cash and cash equivalents at end of year	**280.0**	**289.8**	**308.8**