

# LANCASHIRE HOLDINGS LIMITED

**GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR  
DIVIDENDS, OF 3.6% IN Q3 2011, 10.4% YEAR TO DATE  
COMBINED RATIO OF 43.5% IN Q3 2011, 60.7% YEAR TO DATE  
FULLY CONVERTED BOOK VALUE PER SHARE OF \$8.20 AT 30 SEPTEMBER 2011  
SPECIAL DIVIDEND AND EQUIVALENTS OF \$152 MILLION OR \$0.80 PER COMMON  
SHARE**

4 November 2011  
Hamilton, Bermuda

Lancashire Holdings Limited (“Lancashire” or “the Group”) today announces its results for the third quarter of 2011 and the nine month period ended 30 September 2011.

## Financial highlights

	As at 30 September 2011	As at 30 September 2010
<b>Fully converted book value per share</b>	<b>\$8.20</b>	<b>\$8.43</b>
<b>Return on equity* – Q3</b>	<b>3.6%</b>	<b>7.9%</b>
<b>Return on equity* – YTD</b>	<b>10.4%</b>	<b>15.9%</b>
<b>Operating return on average equity – Q3</b>	<b>6.2%</b>	<b>6.9%</b>
<b>Operating return on average equity – YTD</b>	<b>13.3%</b>	<b>12.9%</b>
<b>Special dividend per common share**</b>	<b>\$0.80</b>	<b>\$1.40</b>

\* Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.

\*\* See “Dividends” below for Record Date and Dividend Payment Date.

## Financial highlights:

	Three months ended		Nine months ended	
	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
<b>Highlights (\$m)</b>				
Gross premiums written	142.9	135.0	522.7	595.1
Net premiums written	133.6	134.0	462.7	556.2
Net profit after tax	75.7	106.0	173.2	199.0
Net operating profit	87.7	97.4	180.9	183.1
Share repurchases	-	36.1	-	136.4
<b>Per share data</b>				
Diluted earnings per share	\$0.42	\$0.61	\$0.98	\$1.12
Diluted earnings per share – operating	\$0.49	\$0.56	\$1.02	\$1.03
<b>Financial ratios</b>				
Total investment return	(0.6)%	2.0%	1.2%	4.6%
Net loss ratio	12.2%	9.4%	29.3%	37.6%
Combined ratio	43.5%	39.2%	60.7%	65.1%
Accident year loss ratio	27.7%	29.2%	57.5%	54.4%

**Richard Brindle, Group Chief Executive Officer, commented:**

“Lancashire has delivered another solid performance this quarter. The Atlantic wind season threatened serious losses with the US landfall of Hurricane Irene, but a fall in the intensity of the wind speeds resulted in thankfully lower losses to life and property than might have been anticipated. More importantly, the quarter saw very challenging financial markets, where global uncertainty led to rapid fluctuations in the asset side of our balance sheet. We believe we have taken the appropriate actions to protect our assets through these very difficult times.

We increased book value per share by 3.6% in the third quarter delivering a return on equity of 10.4% for the first nine months of the year.

We have now increased book value per share, including dividends, for twenty two out of the twenty three quarters since our inception in 2005. This represents a compound annual return of 19.8%.

I am pleased to announce a special dividend of \$124 million or \$0.80 per common share (approximately £0.49 per common share at the current exchange rate). Including dividend equivalent payments to warrant holders, this is a total capital return of \$152 million. We have given careful consideration to our capital requirements for the coming year, and the proposed dividend enables us to return profits to our shareholders, whilst still equipping us well to capture potential compelling opportunities in the 2012 underwriting year.

In a year which has witnessed several major catastrophe losses, as well as the introduction of the new RMS models for US and European windstorm risks, we have seen premium rates holding, or improving, across most of our core lines of business during the quarter. We believe that premium rates on property reinsurance lines will continue to improve, and Lancashire's Accordion side car facility will see significant deployment of its capacity in the lead up to January 2012.

I would like to thank our shareholders for their support at the special general meeting on 18 August 2011. This has facilitated both the move in tax residency from Bermuda to the UK and given Lancashire additional flexibility to raise capital rapidly through the issue of up to 10% of shares on a non-pre-emptive basis, giving us further ability to take full advantage of the tools to meet the needs and opportunities arising in the catastrophe lines we underwrite.

Lancashire remains well equipped to succeed in uncertain times. Since our formation we have maintained a focused and expert team, particularly in the areas of underwriting and capital management, who are ready to respond rapidly and innovatively to events, however they may impact our business.”

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

“With shades of history repeating itself, strong underwriting performance in the third quarter was dampened by investment results. In a quarter where, once again, there were a number of industry losses, our underwriting produced a strong combined ratio of 43.5%. Investments unfortunately suffered a loss of 0.6%. Given our desire for capital preservation, and facing further investment market volatility, we liquidated the small allocation to equities we held. We have, however, still managed to produce a respectable overall return on equity of 3.6% for the quarter.

With the announcement of our special dividend and dividend equivalent payments, we will have returned \$1.3 billion, or 84.5%, of comprehensive income generated since inception and 96.9% of comprehensive income for the year to date. Market conditions for 2012 look like they are gradually improving, albeit not spectacularly, so at this point we are keen to hold sufficient levels of capital to allow us to take full advantage of any opportunities that come our way, while returning a prudent level of excess capital to our shareholders. As always, we will continue to actively monitor our capital levels versus underwriting opportunities.”

## Lancashire Renewal Price Index for major classes

Lancashire's Renewal Price Index ("RPI") is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Tool" at the end of this announcement for further guidance). This does not include new business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2010:

Class	YTD 2011	Q3 2011	Q2 2011	Q1 2011
Aviation (AV52)	97%	100%	100%	92%
Gulf of Mexico energy	101%	101%	101%	100%
Energy offshore worldwide	110%	108%	115%	104%
Marine	99%	99%	99%	100%
Direct and facultative	106%	116%	105%	94%
Property retrocession and reinsurance	108%	125%	115%	101%
Terrorism	94%	99%	99%	89%
<b>Combined</b>	<b>104%</b>	<b>112%</b>	<b>106%</b>	<b>99%</b>

## Underwriting results

### Gross premiums written

	Q3				YTD			
	2011	2010	Change	Change	2011	2010	Change	Change
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Property	64.9	61.0	3.9	6.4	230.1	286.7	(56.6)	(19.7)
Energy	53.7	51.3	2.4	4.7	205.8	210.3	(4.5)	(2.1)
Marine	13.6	13.8	(0.2)	(1.4)	57.8	69.9	(12.1)	(17.3)
Aviation	10.7	8.9	1.8	20.2	29.0	28.2	0.8	2.8
<b>Total</b>	<b>142.9</b>	<b>135.0</b>	<b>7.9</b>	<b>5.9</b>	<b>522.7</b>	<b>595.1</b>	<b>(72.4)</b>	<b>(12.2)</b>

Gross premiums written increased by 5.9% in the third quarter of 2011 compared to the same period in 2010. In 2011 to date, gross premiums written decreased by 12.2% compared to the first nine months of 2010.

The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 6.4% for the quarter compared to the same period in 2010 and decreased by 19.7% in the first nine months of 2011 compared to the first nine months of 2010. While the dollar value of the increase in the quarter is minimal, movements within individual property lines were more meaningful. The loss-affected Japanese property catastrophe renewals deferred from April were renewed this quarter at substantial rate increases. There were also further opportunities in New Zealand this quarter, offset by some multi-year deals written in the third quarter of 2010 not up for renewal yet. Similarly, premiums for the year to date remain behind the same period in 2010 due to the impact of multi-year deals not up for renewal yet. While the property retrocession book was significantly reduced in the first quarter of 2011 relative to the first quarter of 2010, due to declining pricing and terms and conditions, the second and third quarters brought substantially improved trading conditions following the accumulation of industry losses. Lancashire launched its sidecar vehicle, Accordion, in May 2011 to take advantage of those improvements and, as a result, several new deals were written in the last two quarters. The first nine months of 2011 also included \$5.1 million of reinstatement premiums compared to \$12.0 million in 2010, with negligible impacts on both third quarters. Offsetting the increases in property

catastrophe and retrocession this quarter were further reductions in the political risk book. A substantial part of the reduction in the year to date is driven by the terrorism and political risk books. New business volumes this year are lower in these classes and long term deals written in previous years are not up for renewal yet. Otherwise, the recent trend of declining prices in property direct and facultative has also begun to reverse and, while volumes for the quarter and the year to date are behind the prior year, the reduction is less than had been anticipated at the beginning of the year.

Energy gross premiums written increased by 4.7% for the quarter compared to the same period in 2010 and decreased by 2.1% in the first nine months of 2011 compared to the first nine months of 2010. As with the property book, the actual dollar value of the increase for the quarter is minimal as the second quarter is typically the major renewal period for the energy sector, particularly in the Gulf of Mexico. However, worldwide offshore premiums increased, largely due to the timing of renewals. Conversely, Gulf of Mexico premiums reduced due to the timing of renewals with some third quarter deals renewing earlier in the year. Both lines continue to produce some new business with a portion of this written on a multi-year basis.

Marine gross premiums written decreased by 1.4% for the quarter compared to the same period in 2010 and decreased by 17.3% in the first nine months of 2011 compared to the first nine months of 2010. These reductions are primarily due to the timing of multi-year deals written in the same periods in the prior year that are not currently up for renewal, offset marginally by a few opportunistic marine retrocession deals in the post Deepwater Horizon market in the second quarter.

Aviation gross premiums written increased by 20.2% for the quarter compared to the same period in 2010 and increased by 2.8% in the first nine months of 2011 compared to the first nine months of 2010. The increases in dollar terms are negligible. While pricing and renewal rates remain under some pressure, the first three quarters of the year are not major renewal periods for the aviation sector and volumes are relatively light.

\*\*\*\*\*

Ceded reinsurance premiums increased by \$8.3 million for the quarter and increased by \$21.1 million, or 54.2% for the nine month period to 30 September 2011 compared to the same periods in 2010. The Group does not usually purchase a significant amount of reinsurance in the third quarter. However, there were further cessions this quarter from the property retrocession book to the Accordion sidecar facility plus an opportunistic catastrophe cover was placed. Otherwise, for the year to date, rate increases on our outwards marine and energy reinsurance programme following the Deepwater Horizon loss, together with reinstatement following the Gryphon loss, were largely offset by reductions across the remainder of our programme. Additional reinsurance cover was also purchased earlier in the year given the favourable rates available at that time.

\*\*\*\*\*

Net premiums earned as a proportion of net premiums written were 111.4% in the third quarter of 2011 compared to 110.7% in the same period in 2010 and 94.3% in the nine months to 30 September 2011, compared to 83.6% in the same period in 2010. The combination of increased premium volume and a number of multi-year deals in the first half of 2010 compared to 2011 resulted in a lag in premium earnings into 2011.

\*\*\*\*\*

The Group's net loss ratio for the third quarter of 2011 was 12.2% compared to 9.4% for the same period in 2010 and 29.3% for the nine month period to 30 September 2011 compared to 37.6% for 2010. Both quarters reflect an unusually low number of reported losses during the period, combined with favourable development of prior year reserves. The third quarter of 2011 was impacted by modest increases in Christchurch Lyttleton earthquake reserves by \$3.5 million to \$21.3 million, and our Tohoku reserves by \$3.1 million to \$75.1 million. Excluding these losses, the ratio for the third quarter of 2011 would have been 7.7%. The Group has no known material exposure to losses from Hurricane Irene. The third quarter of 2010 benefited from a \$6.0 million reduction in the Chilean earthquake reserves.

The nine months to 30 September 2011 include total estimated net losses, after reinsurance and reinstatement premiums, of \$96.4 million in relation to the Tohoku and Christchurch Lyttleton

earthquakes. The Group has immaterial losses in relation to the U.S. tornadoes and the June New Zealand earthquake. The first nine months of 2010 included an estimated net loss of \$91.5 million in relation to the Chilean earthquake after reinsurance and reinstatement premiums. Absent these losses, the net loss ratios would have been 6.1% for 2011 and 15.7% for 2010.

Significant uncertainty exists on the eventual ultimate loss in relation to earthquakes.

Prior year favourable development for the third quarter of \$21.1 million, compared to \$22.2 million for the third quarter of 2010, reduced the net loss ratio by 14.2 points for 2011, and 15.0 points for 2010. For the year to date, prior year favourable development was \$118.0 million, compared to \$78.3 million for 2010, reducing the net loss ratio by 27.0 points for 2011 and 16.8 points for 2010. In early 2011 an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with industry factors previously used. On completion, net reserves of \$36.9 million were released in the first quarter.

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

	Q3		YTD	
	2011	2010	2011	2010
	\$m	\$m	\$m	\$m
Property	4.9	5.6	40.2	33.9
Energy	11.6	10.7	47.0	27.6
Marine	4.5	5.3	25.2	11.4
Aviation	0.1	0.6	5.6	5.4
<b>Total</b>	<b>21.1</b>	<b>22.2</b>	<b>118.0</b>	<b>78.3</b>

Note: Positive numbers denote favourable development.

The accident year loss ratio for the third quarter of 2011, including the impact of foreign exchange revaluations, was 27.7% compared to 29.2% for the same period in 2010. The year to date accident year loss ratio was 57.5% compared to 54.4% for the nine months to 30 September 2010. The 2011 accident year loss ratio for the nine months to 30 September 2011 included:

- 17.3% for the Tohoku earthquake;
- 11.4% for the Gryphon loss; and
- 5.3% for the Christchurch Lyttleton earthquake.

The 2010 accident year loss ratio for the nine months to 30 September 2010 included:

- 21.4% for the Chilean earthquake; and
- 6.1% for Deepwater Horizon.

Otherwise, both years experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2011:

- 2006 - favourable development of \$1.1 million (2010: \$0.2 million adverse development);
- 2007 - favourable development of \$10.2 million (2010: \$3.7 million);
- 2008 - favourable development of \$20.0 million (2010: \$34.1 million);
- 2009 - favourable development of \$30.4 million (2010: \$40.7 million); and
- 2010 - favourable development of \$56.3 million.

The ratio of IBNR to total reserves was 31.9% at 30 September 2011 compared to 37.6% at 30 September 2010.

## Investments

Net investment income, excluding realised and unrealised gains and losses, was \$10.5 million for the third quarter of 2011, a decrease of 19.8% from the third quarter of 2010. The decrease was due to lower yields compared to the third quarter of 2010.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, resulted in a loss of \$4.8 million for the third quarter of 2011 compared to a gain of \$39.6 million for the third quarter of 2010, and a gain of \$28.0 million for the 2011 year to date versus \$92.8 million for the same period in 2010. In addition, with the recent flight to quality and resultant U.S dollar strengthening relative to emerging market currencies, \$7.9 million was included in foreign exchange losses for the quarter. Returns were lower than 2010 due to the following impacts:

- Reduced investment portfolio duration;
- A lower yield environment and the volatility in the financial markets;
- Realised losses on the liquidation of the Group's equity portfolio offset to a degree by realised gains on the liquidation of the Group's Treasury Inflation-Protected Securities ("TIPS") portfolio; and
- Unrealised losses on the Group's emerging market debt portfolio.

Earlier in the year, the portfolio was positioned to mitigate the expected risk of rising interest rates. With the Federal Reserve commenting during the quarter that the federal funds rate would be exceptionally low through to mid 2013, this risk has dissipated in the near term. In addition, downward revisions of global GDP expectations and volatility in Europe resulted in a risk off trade which had a significant impact on the Group's equity and emerging market debt holdings. As the Group continues to maintain a strong emphasis on capital preservation and liquidity, the equity portfolio was liquidated to limit future potential losses and further volatility. Earlier in the quarter, as inflationary concerns dissipated, the TIPS portfolio was liquidated. Gains of \$5.5 million were realised on this sale.

The Group continues to hold an emerging market debt portfolio given the future growth expectations for those regions. Currently 7.1% of the portfolio is allocated to emerging markets with an overall average credit quality of BBB. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represented 30.6% of managed invested assets at 30 September 2011 compared to 28.4% at 30 September 2010.

With volatile markets the Group continues to hold a conservative investment portfolio. The managed portfolio was as follows:

	<b>As at 30 September 2011</b>	<b>As at 30 September 2010</b>
Fixed income securities	85.2%	88.1%
Cash and cash equivalents	14.8%	11.9%
Total	100.0%	100.0%

Key investment portfolio statistics are:

	<b>As at 30 September 2011</b>	<b>As at 31 December 2010</b>	<b>As at 30 September 2010</b>
Duration	1.7 years	2.2 years	2.4 years
Credit quality	AA	AA	AA
Book yield	2.0%	2.4%	2.6%
Market yield	1.5%	1.9%	1.5%

## **Other operating expenses**

Other operating expenses, excluding employee remuneration, are broadly consistent compared with the same period in 2010, reflecting the Group's stable operating platform. Excluding a reduction of \$6.7 million for the prior year in relation to the final determination of the previous year's variable compensation and equity based compensation, total employment costs were \$31.7 million for the nine months to 30 September 2011 compared to \$31.2 million for the same period in 2010.

Equity based compensation was \$0.4 million in the third quarter of 2011 compared to \$4.4 million in the same period last year. For the nine months to 30 September 2011 and 2010 the charge was \$12.6 million and \$15.0 million respectively. During the third quarter of 2011 there was an adjustment of \$5.6 million to the estimated fair value of our existing RSS plan across all years, reflecting some minor revisions to underlying assumptions. The restricted share programme began in 2008 and shares typically vest after a two or three year period.

## **Capital**

At 30 September 2011, total capital was \$1.562 billion, comprising shareholders' equity of \$1.433 billion and \$129.6 million of long-term debt. Leverage was 8.3%. Total capital was \$1.575 billion at 30 September 2010 and \$1.416 billion at 31 December 2010.

## **Repurchase programme**

No shares were repurchased during the nine months to 30 September 2011 compared to \$136.4 million of shares which were repurchased during the same period of 2010.

The Group's current authorised share repurchase programme permits a maximum of 16,860,242 shares to be repurchased.

## **Dividends**

The Lancashire Board of Directors has declared a special dividend to be paid out of retained earnings of \$0.80 per common share (approximately £0.49 per common share at the current exchange rate), which results in an aggregate payment of approximately \$124.3 million (the "Special Dividend"). The Special Dividend will be paid in Pounds Sterling on 21 December 2011 (the "Special Dividend Payment Date") to shareholders of record on 25 November 2011 (the "Record Date") using the GBP£/US\$ spot market exchange rate at 12 noon London time on the Record Date.

In accordance with the terms of Lancashire's warrants, a payment equivalent to the Special Dividend to shareholders will also be paid in Pounds Sterling on 21 December 2011 to those warrant holders listed on the Company's warrant register as of the Record Date. The warrant payment will be made in respect of the number of common shares for which each warrant is exercisable as at the Record Date (approximately \$27.7 million in aggregate).

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.

## **Financial information**

**Further details of our 2011 third quarter results can be obtained from our Financial Supplement. This can be accessed via our website [www.lancashiregroup.com](http://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 / 9:00 am EST on Friday, 4 November 2011. The conference call will be hosted by Lancashire management.

The call can be accessed by dialing +44 (0)20 8817 9301/ +1 718 354 1226 with the pass code 5708225. The call can also be accessed via webcast, please go to our website ([www.lancashiregroup.com](http://www.lancashiregroup.com)) to access.

A replay facility will be available for two weeks until Friday, 18 November 2011. The dial in number for the replay facility is +44 (0) 20 77696425 with pass code 5708225#. The replay facility can also be accessed at [www.lancashiregroup.com](http://www.lancashiregroup.com)

For further information, please contact:

### Lancashire Holdings Limited

Christopher Head

+44 (0)20 7264 4145

[chris.head@lancashiregroup.com](mailto:chris.head@lancashiregroup.com)

Jonny Creagh-Coen

+44 (0)20 7264 4066

[jonny.creagh-coen@lancashiregroup.com](mailto:jonny.creagh-coen@lancashiregroup.com)

### Haggie Financial

Peter Rigby

+44 (0)20 7417 8989

(Peter Rigby mobile 07803851426)

Investor enquiries and questions can also be directed to [info@lancashiregroup.com](mailto:info@lancashiregroup.com) or by accessing the Group's website [www.lancashiregroup.com](http://www.lancashiregroup.com).

## About Lancashire

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

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

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

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

Lancashire has capital in excess of \$1 billion and its Common Shares trade on the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. The mailing address is Lancashire Holdings Limited, P.O. Box HM 2358, Hamilton HM HX, Bermuda. For more information on Lancashire, visit the Company'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 regulated by the Financial Services Authority in the UK.

Lancashire Marketing Services (Middle East) Limited is authorised and regulated by the Dubai Financial Services Authority.

## NOTE REGARDING RPI TOOL

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL TOOL THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS 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 TOOL,



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', 'WILL', 'SEEKS', 'SHOULD', OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THOSE REGARDING THE GROUP'S FINANCIAL POSITION, RESULTS OF OPERATIONS, LIQUIDITY, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS, 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 NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN OUR UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS; LOSS OF KEY PERSONNEL; A DECLINE IN OUR 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; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; AND THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CURRENT CFC REGIME FAILING TO REMAIN IN FORCE FOR THE PERIOD INTENDED; THE FAILURE OF THE UK GOVERNMENT TO BRING BEFORE PARLIAMENT LEGISLATION CONTAINING A SUITABLE NEW CFC REGIME IN LINE WITH THE PROPOSALS OUTLINED IN THE CONSULTATION DOCUMENT; THE OMISSION FROM THE NEW CFC REGIME OF A SUITABLE EXCLUSION (E.G. RELATING TO LARGE RISKS WRITTEN IN THE INTERNATIONAL INSURANCE MARKET); ANY CHANGE IN UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE TEMPORARY PERIOD EXEMPTION, THE ANTICIPATED TERRITORIAL BUSINESS EXEMPTION OR OTHER ASPECTS OF THE NEW CFC REGIME; AND THE IMPLEMENTATION OF THE CHANGE IN TAX RESIDENCE OF LANCASHIRE NEGATIVELY IMPACTS STAKEHOLDERS OF LANCASHIRE IN A MATERIAL WAY.

THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED 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**  
(Unaudited)

	Quarter 3 2011 \$m	Quarter 3 2010 \$m	YTD 2011 \$m	YTD 2010 \$m
Gross premiums written	142.9	135.0	522.7	595.1
Outwards reinsurance premiums	(9.3)	(1.0)	(60.0)	(38.9)
<b>Net premiums written</b>	<b>133.6</b>	<b>134.0</b>	<b>462.7</b>	<b>556.2</b>
Change in unearned premiums	20.7	22.9	(47.2)	(97.5)
Change in unearned premiums ceded	(5.5)	(8.5)	20.8	6.1
<b>Net premiums earned</b>	<b>148.8</b>	<b>148.4</b>	<b>436.3</b>	<b>464.8</b>
Net investment income	10.5	13.1	34.3	40.7
Net other investment (losses) income	(0.9)	0.1	(0.9)	0.1
Net realised gains and impairments	1.0	6.6	6.0	19.4
Share of profit of associate	0.3	-	0.3	-
Net foreign exchange (losses) gains	(9.7)	3.6	(8.8)	-
<b>Total net revenue</b>	<b>150.0</b>	<b>171.8</b>	<b>467.2</b>	<b>525.0</b>
Insurance losses and loss adjustment expenses	17.1	13.6	139.8	206.2
Insurance losses and loss adjustment expenses recoverable	1.0	0.3	(11.9)	(31.4)
Net insurance acquisition expenses	28.9	28.3	80.5	82.6
Equity based compensation	0.4	4.4	12.6	15.0
Other operating expenses	17.7	15.9	56.3	45.3
<b>Total expenses</b>	<b>65.1</b>	<b>62.5</b>	<b>277.3</b>	<b>317.7</b>
<b>Results of operating activities</b>	<b>84.9</b>	<b>109.3</b>	<b>189.9</b>	<b>207.3</b>
Financing costs	5.9	1.7	11.5	5.1
<b>Profit before tax</b>	<b>79.0</b>	<b>107.6</b>	<b>178.4</b>	<b>202.2</b>
Tax charge	3.3	1.6	5.2	3.2
<b>Profit for the period attributable to equity shareholders</b>	<b>75.7</b>	<b>106.0</b>	<b>173.2</b>	<b>199.0</b>
Net change in unrealised losses gains on investments	(15.6)	20.8	(11.2)	34.1
Tax on net change in unrealised losses gains on investments	0.2	(1.0)	(0.2)	(1.5)
<b>Other comprehensive (loss) income</b>	<b>(15.4)</b>	<b>19.8</b>	<b>(11.4)</b>	<b>32.6</b>
<b>Total comprehensive income attributable to equity shareholders</b>	<b>60.3</b>	<b>125.8</b>	<b>161.8</b>	<b>231.6</b>
Net loss ratio	12.2%	9.4%	29.3%	37.6%
Net acquisition cost ratio	19.4%	19.1%	18.5%	17.8%
Administrative expense ratio	11.9%	10.7%	12.9%	9.7%
Combined ratio	43.5%	39.2%	60.7%	65.1%
Basic earnings per share	\$0.49	\$0.69	\$1.13	\$1.23
Diluted earnings per share	\$0.42	\$0.61	\$0.98	\$1.12
Change in fully converted book value per share	3.6%	7.9%	10.4%	15.9%

## Consolidated balance sheet

	Unaudited 30 Sep 2011 \$m	Unaudited 30 Sep 2010 \$m	Audited 31 Dec 2010 \$m
<b>Assets</b>			
Cash and cash equivalents	368.5	288.1	512.5
Accrued interest receivable	12.4	14.6	13.4
Investments			
- Fixed income securities, available for sale	1,844.1	1,948.1	1,719.1
- Fixed income securities, at fair value through profit or loss	0.7	-	-
- Other investments	(0.2)	(0.3)	(0.2)
Reinsurance assets			
- Unearned premiums on premiums ceded	23.7	11.7	2.9
- Reinsurance recoveries	42.4	44.0	35.9
- Other receivables	2.4	3.6	5.6
Deferred acquisition costs	66.2	70.1	61.2
Other receivables	21.4	9.2	45.7
Inwards premiums receivable from insureds and cedants	232.1	232.4	217.5
Deferred tax asset	9.0	5.6	6.4
Investment in associate	7.3	-	-
Property, plant and equipment	6.1	7.5	7.4
<b>Total assets</b>	<b>2,636.1</b>	<b>2,634.6</b>	<b>2,627.4</b>
<b>Liabilities</b>			
Insurance contracts			
- Losses and loss adjustment expenses	556.9	565.7	507.5
- Unearned premiums	397.8	415.1	350.6
- Other payables	17.1	17.0	20.6
Amounts payable to reinsurers	20.0	6.2	4.4
Deferred acquisition costs ceded	1.2	2.6	0.1
Other payables	72.0	45.3	321.4
Corporation tax payable	3.4	5.9	6.3
Interest rate swap	5.6	1.5	0.8
Long-term debt	129.6	129.7	128.8
<b>Total liabilities</b>	<b>1,203.6</b>	<b>1,189.0</b>	<b>1,340.5</b>
<b>Shareholders' equity</b>			
Share capital	84.3	84.3	84.3
Own shares	(95.7)	(111.0)	(106.9)
Share premium	2.4	2.4	2.4
Contributed surplus	665.9	661.9	662.6
Accumulated other comprehensive income	16.8	63.0	28.2
Other reserves	68.4	67.2	70.7
Retained earnings	690.4	677.8	545.6
<b>Total shareholders' equity attributable to equity shareholders</b>	<b>1,432.5</b>	<b>1,445.6</b>	<b>1,286.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,636.1</b>	<b>2,634.6</b>	<b>2,627.4</b>

**Statement of consolidated cashflows**  
(unaudited)

	<b>Unaudited Nine months 2011</b>	<b>Unaudited Nine months 2010</b>	<b>Audited Twelve months 2010</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Cash flows from operating activities</b>			
Profit before tax	178.4	202.2	339.2
Tax paid	(7.3)	(3.6)	(5.8)
Depreciation	2.2	2.0	2.6
Interest expense	4.2	4.1	5.4
Interest and dividend income	(43.6)	(50.9)	(68.3)
Accretion of fixed income securities	5.9	7.4	11.0
Equity based compensation	10.9	15.0	21.1
Foreign exchange (gains) losses	12.7	(2.6)	(2.1)
Net other investment income	0.9	(0.1)	(0.1)
Net realised (gains) losses and impairments	(6.0)	(19.4)	(33.2)
Unrealised (gain) loss on interest rate swaps	4.8	(2.0)	(2.8)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	59.1	92.4	9.0
- Other assets and liabilities	37.1	1.4	(7.2)
<b>Net cash flows from operating activities</b>	<b>259.2</b>	<b>245.9</b>	<b>268.8</b>
<b>Cash flows used in investing activities</b>			
Interest and dividends received	44.7	48.4	66.9
Net purchase of property, plant and equipment	(0.9)	(1.4)	(2.3)
Investment in associate	(7.3)	-	-
Purchase of fixed income securities	(1,593.0)	(1,919.4)	(2,635.5)
Purchase of equity securities	(87.4)	-	-
Proceeds on maturity and disposal of fixed income securities	1,455.1	1,909.1	2,828.5
Proceeds on disposal of equity securities	80.2	-	-
Net proceeds on other investments	1.1	1.9	1.6
<b>Net cash flows used in from investing activities</b>	<b>(107.5)</b>	<b>38.6</b>	<b>259.2</b>
<b>Cash flows used in financing activities</b>			
Interest paid	(4.2)	(4.1)	(5.4)
Dividends paid	(292.4)	(283.8)	(293.2)
Shares repurchased	-	(149.7)	(149.5)
Distributions by trust	(4.2)	-	-
<b>Net cash flows used in financing activities</b>	<b>(300.8)</b>	<b>(437.6)</b>	<b>(448.1)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(149.1)</b>	<b>(153.1)</b>	<b>79.9</b>
Cash and cash equivalents at beginning of period	512.5	440.0	440.0
Effect of exchange rate fluctuations on cash and cash equivalents	5.1	1.2	(7.4)
<b>Cash and cash equivalents at end of period</b>	<b>368.5</b>	<b>288.1</b>	<b>512.5</b>