# LANCASHIRE HOLDINGS LIMITED

## GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 2.0% IN Q2 2013, 7.0% YEAR TO DATE
## COMBINED RATIO OF 66.9% IN Q2 2013, 58.8% YEAR TO DATE
## INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
## FULLY CONVERTED BOOK VALUE PER SHARE OF $7.19 AT 30 JUNE 2013

25 July 2013
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2013 and the six month period ended 30 June 2013.

**Financial highlights**

| | **As at 30 June 2013** | **As at 30 June 2012** |
|---|---|---|
| **Fully converted book value per share** | **$7.19** | **$8.06** |
| **Return on equity* – Q2** | **2.0%** | **3.6%** |
| **Return on equity* – YTD** | **7.0%** | **7.1%** |
| **Operating return on average equity – Q2** | **4.3%** | **4.3%** |
| **Operating return on average equity – YTD** | **8.5%** | **7.5%** |
| **Interim dividend per common share**** | **$0.05** | **$0.05** |
| **Final dividend per common share**** | **$0.10** | **$0.10** |
| **Special dividends per common share**** | **$1.05** | - |

* 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** | | **Six months ended** | |
|---|---|---|---|---|
| | **30 June 2013** | **30 June 2012** | **30 June 2013** | **30 June 2012** |
| ***Highlights ($m)*** | | | | |
| Gross premiums written | 209.0 | 280.8 | 423.9 | 514.8 |
| Net premiums written | 189.1 | 233.5 | 307.7 | 365.6 |
| Profit before tax | 58.3 | 60.6 | 137.2 | 107.1 |
| Profit after tax | 56.2 | 58.5 | 134.1 | 103.7 |
| Comprehensive income | 31.2 | 59.0 | 97.5 | 115.2 |
| Net operating profit | 54.2 | 59.7 | 121.5 | 102.6 |
| ***Per share data*** | | | | |
| Diluted earnings per share | $0.30 | $0.32 | $0.74 | $0.57 |
| Diluted earnings per share – operating | $0.29 | $0.33 | $0.67 | $0.57 |
| ***Financial ratios*** | | | | |
| Total investment return | (0.6%) | 0.6% | (0.5%) | 1.7% |
| Net loss ratio | 30.2% | 27.9% | 23.5% | 31.7% |
| Combined ratio | 66.9% | 60.7% | 58.8% | 67.2% |
| Accident year loss ratio | 22.6% | 42.6% | 26.2% | 46.5% |

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

Whilst a lot of the discussion this year about the insurance business has been focused on the influx of new capital into the property reinsurance market, it is important to remember that the bulk of Lancashire's business is in the direct specialty lines where barriers to entry are much higher. The absence of widely-accepted third party models for non-elemental risk exposures and especially the complexity of coverage and claims in lines like energy, terrorism and marine which form the lion's share of Lancashire's business, mean that this is not an area that capital can enter without experienced and well-regarded underwriters. Our specialty lines in terror and political risk, energy, aviation and marine account for around two-thirds of our portfolio in 2013. These are niche markets where the experience and reputation of our underwriters and claims staff, the relationships we have built with clients and brokers over decades in the business and the ability to offer market-leading capacity with an efficient decision-making process make Lancashire a preferred partner. We do foresee tough times for those smaller market participants who cannot offer the line size, track record or experience, but at Lancashire we have a consistent history of superior results that will help us through a softening market cycle. Our loss ratios and combined ratios are the key to our performance and a net loss ratio of 23.5% for the first half of this year and a combined ratio of 58.8% are reminders that even in softer markets Lancashire's underwriting rigour can produce excellent results.

On the property side we have continued to expand our property catastrophe portfolio to replace the exposures which we are dropping from the run-off of the property direct and facultative book and from the reduction in our property retrocession writings. The run-off of the property direct and facultative inwards class is now almost complete and we have reduced property retrocession as planned; as you know we always talk about property retrocession as a post-loss product, and the losses of 2010 and 2011 have faded in the memory and competition from the non-traditional markets has had a definite impact on pricing. The upside of this is that in property catastrophe we have a number of areas where we can grow our core portfolio and this year we have written new business in the US-Northeast Region, Florida, California and Texas as well as Japan, Thailand, the United Kingdom, Continental Europe, and Australia. Whilst pricing is undoubtedly under pressure, there is still well-priced business available, and with our exposure sitting at very modest levels we will take the opportunities to build out our core business where we can.

We were naturally disappointed at the deterioration in the Costa Concordia loss and will continue to monitor the situation closely. Our attritional loss ratios are so low that we can provide meaningful capacity to clients, accepting that we will have major losses from time to time, but still producing market-beating combined ratios.

Our research and development phase on Kinesis, the Lancashire Capital Management arm, is going well and we are having encouraging discussions with both investors and clients. We won't have much to report until this phase has concluded but we believe our combination of non-elemental lines expertise and data and elemental optimisation skills will give Kinesis an edge in a competitive market.

So all in all Lancashire continues to produce excellent underwriting results and we thank all our clients and brokers for their support. We often say that a soft market is a better test of underwriting approach and ability than a hard market, and we're well placed to negotiate the current market conditions.

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

Despite some challenges in the quarter, we've produced a return on equity of 2.0%. The Costa Concordia loss deteriorated significantly in the quarter, resulting in adverse prior year development. And with volatility returning to the investment markets, we recorded a loss on our portfolio of 0.6% for the quarter. The loss on our investments was stemmed by the interest rate hedging that we implemented earlier in the year, so our timing there was opportune.

With no improvement in our trading outlook, we have substantial excess capital. This obviously affords us maximum flexibility to take advantage of any opportunities that may arise but, in the absence of those, we would expect to return our earnings to our shareholders later in the year.

**Lancashire Renewal Price Index for major classes**

Lancashire's 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 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 methodology" at the end of this announcement for further guidance). The RPI does not include new business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2012:

| **Class** | **YTD 2013** | **Q2 2013** | **Q1 2013** |
|---|---|---|---|
| Aviation (AV52) | 90% | 94% | 86% |
| Gulf of Mexico energy | 97% | 97% | 96% |
| Energy offshore worldwide | 98% | 98% | 99% |
| Marine | 105% | 100% | 110% |
| Property retrocession and reinsurance | 98% | 98% | 98% |
| Terrorism | 96% | 96% | 96% |
| **Combined** | **98%** | **97%** | **98%** |

**Underwriting results**

**Gross premiums written**

| | **Q2** | | | | **YTD** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013 $m** | **2012 $m** | **Change $m** | **Change %** | **2013 $m** | **2012 $m** | **Change $m** | **Change %** |
| Property | 86.8 | 118.0 | (31.2) | (26.4) | 218.8 | 276.5 | (57.7) | (20.9) |
| Energy | 97.6 | 123.5 | (25.9) | (21.0) | 143.1 | 167.8 | (24.7) | (14.7) |
| Marine | 12.7 | 30.4 | (17.7) | (58.2) | 42.3 | 53.9 | (11.6) | (21.5) |
| Aviation | 11.9 | 8.9 | 3.0 | 33.7 | 19.7 | 16.6 | 3.1 | 18.7 |
| **Total** | **209.0** | **280.8** | **(71.8)** | **(25.6)** | **423.9** | **514.8** | **(90.9)** | **(17.7)** |

Gross premiums written decreased by 25.6% in the second quarter of 2013 compared to the same period in 2012. In 2013 to date, gross premiums written decreased by 17.7% compared to the first six months of 2012. The Group's four principal classes and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 26.4% for the quarter compared to the same period in 2012 and decreased by 20.9% in the first six months of 2013 compared to the first six months of 2012. The decrease in the quarter and for the year to date is driven primarily by the property retrocession book, where we reduced exposures due to worsening rates and terms and conditions, and our decision to cease writing property direct and facultative business from 1 July 2012. In addition, some opportunistic deals written in 2012 in both the property retrocession and property catastrophe excess-of-loss classes were not renewed. The property catastrophe excess-of-loss 1 April 2013 renewals were also adversely impacted by foreign exchange movements on the Japanese Yen. In both the second quarter and first six months of 2013 we saw increased deal flow in the political and sovereign risk classes and were able to write some new business with core clients in this class, offsetting the non-renewal of long term deals written in these classes in the previous year.

Energy gross premiums written for the quarter to date decreased by 21.0% compared to the same period in 2012 and decreased by 14.7% in the first six months of 2013 compared to the first six months of 2012. The decrease in premiums for both the quarter and year to date is mostly driven by the Gulf of Mexico

book where a number of deals that were written on a multi-year basis in the second quarter of 2012 are not up for renewal yet. The relative reduction is less than it otherwise would be due to the early cancellation and renewal of one significant multi-year deal in the second quarter of 2013. Given the renewal terms, the impact on earnings is negligible. During the first half of 2013 we have entered a new sub class – energy liabilities – with $5.0 million of premium written to date. Volumes on our other energy lines are fairly flat on both a quarter to date and year to date basis.

Marine gross premiums written decreased by 58.2% for the quarter compared to the same period in 2012 and by 21.5% in the first six months of 2013 compared to the first six months of 2012. These reductions, across all marine classes for the quarter to date, are primarily due to the timing of non-annual contracts that were not up for renewal in the period. The timing of non-annual contract renewals is also the main reason for the reduction in premium on a year to date basis across the majority of marine classes. Increases in the P&I clubs were due to post loss pricing on renewals impacted by the Costa Concordia loss.

Aviation gross premiums written increased by 33.7% for the quarter compared to the same period in 2012 and by 18.7% in the first six months of 2013 compared to the first six months of 2012. Pricing and renewal rates remain under pressure in the AV52 class resulting in a reduction in premiums in both the second quarter and first six months of 2013 compared to the same periods of 2012. These reductions are offset in both the second quarter and first six months of 2013 by new satellite premium written following our re-entry into the class in the third quarter of 2012.

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Ceded reinsurance premiums decreased by $27.4 million, or 57.9%, for the quarter and decreased by $33.0 million, or 22.1%, for the six-month period to 30 June 2013, in each case compared to the same periods in 2012. The decrease in the quarter and the year is predominantly due to reduced cessions to the Accordion vehicle. The remainder of the decrease for the quarter was driven by reduced purchasing of opportunistic Industry Loss Warranties ("ILWs") given declining underlying exposures, and the non renewal of our property catastrophe program, given our exit from the property direct and facultative line of business. Other movements in the quarter broadly offset. In the first quarter of 2013 additional spend on Marine and Energy cover, ILWs and facultative cover were virtually offset by additional reinstatement premiums and the non-renewal of the property per risk program, again due to our exit from property direct and facultative business.

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Net premiums earned as a proportion of net premiums written were 67.0% in the second quarter of 2013 compared to 64.3% in the same period in 2012 and 84.7% in the six months to 30 June 2013, compared to 79.8% in the same period in 2012. The increased percentage for 2013 reflects the reduction in gross premiums written in both the quarter to date and year to date compared to the same periods in the prior year. Both years benefited from the lag in earnings from long-term contracts written in preceding years.

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The Group's net loss ratio for the second quarter of 2013 was 30.2% compared to 27.9% for the same period in 2012 and 23.5% for the six month period to 30 June 2013 compared to 31.7% for the same period in 2012. While there was adverse development on the Costa Concordia marine loss of $37.7 million in the second quarter of 2013, after reinsurance and reinstatement premium, as a result of updated information received, there were otherwise no significant losses in the first six months of 2013. Attritional losses reported were also exceptionally low. In the first six months of 2012 the Group incurred total estimated net losses for Costa Concordia of $58.7 million, after reinsurance and reinstatement premium with $24.6 million of that, after reinsurance and reinstatement premium occurring in the second quarter of 2012. Our total estimated net loss, after reinsurance and reinstatement premiums, for Costa Concordia is now $96.9 million.

Prior year adverse development for the second quarter was $9.6 million, compared to $22.9 million of favourable development for the second quarter of 2012. The adverse development in the second quarter of 2013 was primarily due to the deterioration of the Costa Concordia marine loss offset to a degree by the final settlement of the Gryphon energy loss in our favour. Favourable development was $7.3 million

for the 2013 year to date, compared to $43.5 million for the same period in 2012 with 2013 development impacted significantly by the Costa Concordia development. Both years experienced releases due to lower than expected reported losses.

The following tables show the impact of prior year development and large losses on the Group's loss ratio:

| | Q2 2013 | | YTD 2013 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss Ratio %** | **Losses $m** | **Loss Ratio %** |
| At 30 June | 38.3 | 30.2 | 61.3 | 23.5 |
| Absent Costa Concordia | 5.0 | 3.8 | 28.0 | 10.6 |
| Absent remaining prior year development | 62.0 | 47.3 | 101.9 | 38.5 |
| **Adjusted losses and ratio** | **28.7** | **21.9** | **68.6** | **25.9** |

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

| | Q2 2012 | | YTD 2012 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss Ratio %** | **Losses $m** | **Loss Ratio %** |
| At 30 June | 41.9 | 27.9 | 92.4 | 31.7 |
| Absent Costa Concordia | 20.8 | 13.5 | 46.7 | 15.3 |
| Absent prior year development | 64.8 | 43.1 | 135.9 | 46.6 |
| **Adjusted losses and ratio** | **43.7** | **28.4** | **90.2** | **29.6** |

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

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

| | Q2 | | YTD | |
|---|---|---|---|---|
| | **2013 $m** | **2012 $m** | **2013 $m** | **2012 $m** |
| Property | (0.7) | (9.8) | 12.8 | (8.5) |
| Energy | 19.6 | 14.0 | 21.5 | 28.6 |
| Marine | (28.6) | 18.6 | (25.6) | 23.3 |
| Aviation | 0.1 | 0.1 | (1.4) | 0.1 |
| **Total** | **(9.6)** | **22.9** | **7.3** | **43.5** |

Note: Positive numbers denote favourable development.

The accident year loss ratio for the second quarter of 2013, including the impact of foreign exchange revaluations, was 22.6% compared to 42.6% for the same period in 2012. The year to date accident year loss ratio was 26.2% compared to 46.5% for the six months to 30 June 2012. The 2013 accident year loss ratio for the quarter and six months ended 30 June 2013 did not include any significant large losses. The 2012 accident year loss ratio for the six months to 30 June 2012 included 17.0% for the Costa Concordia loss.

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 2013 and 2012:

| | Six months ended 30 June 2013 $m | Six months ended 30 June 2012 $m |
|---|---|---|
| 2006 accident year | (1.4) | 0.2 |
| 2007 accident year | (0.8) | 1.8 |
| 2008 accident year | (1.5) | (0.5) |
| 2009 accident year | 1.4 | 5.7 |
| 2010 accident year | 0.1 | 11.5 |
| 2011 accident year | 7.1 | 24.8 |
| 2012 accident year | 2.4 | - |
| **Total** | **7.3** | **43.5** |

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 33.7% at 30 June 2013 compared to 29.6% at 30 June 2012.

**Investments**

Net investment income, excluding realised and unrealised gains and losses, was $6.5 million for the second quarter of 2013, a decrease of 22.6% from the second quarter of 2012. Net investment income was $12.6 million for the six months ended 30 June 2013, a decrease of 26.3% compared to the same period in 2012. Average book yields over the quarter and first six months of 2013 were lower than the same periods in 2012. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was a loss of $9.9 million for the second quarter of 2013 compared to $12.4 million of income for the second quarter of 2012, and was a loss of $8.1 million for the 2013 year to date compared to $34.0 million of income for the same period in 2012. Treasury yields and credit spreads increased in the first half of 2013, which had a significant impact on our portfolio, particularly on our emerging market debt portfolio. In the corresponding period of 2012 our portfolio benefited from significant credit spread tightening, again particularly in the emerging market debt portfolio.

Currently 4.0% of the portfolio is allocated to emerging market debt with an overall average credit quality of BBB. The corporate bond allocation represented 28.4% of managed invested assets at 30 June 2013 compared to 28.5% at 30 June 2012. At 30 June 2013 the Group's allocation to bank loans represented 3.7% of the portfolio. These floating rate notes are part of our interest rate risk management strategy.

The group also implemented a tail-risk hedging strategy in the first six months of 2013, consisting of payer swaptions, to protect the fixed income portfolio from a significant increase in interest rates. These instruments lessened the impact on our fixed income portfolio of the significant rise in treasury yields that occurred in the second quarter of 2013, and contributed 0.3% to portfolio performance during both the second quarter and first six months of 2013.

The managed portfolio was as follows:

| | As at 30 June 2013 | As at 31 December 2012 | As at 30 June 2012 |
|---|---|---|---|
| Fixed income securities | 80.9% | 88.9% | 86.3% |
| Other investments | 0.4% | - | - |
| Cash and cash equivalents | 18.7% | 11.1% | 13.7% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

Key investment portfolio statistics are:

| | As at 30 June 2013 | As at 31 December 2012 | As at 30 June 2012 |
|---|---|---|---|
| Duration | 1.3 years | 1.8 years | 1.7 years |
| Credit quality | AA- | AA- | AA- |
| Book yield | 1.5% | 1.8% | 1.8% |
| Market yield | 1.4% | 1.1% | 1.2% |

**Lancashire Capital Management**

The share of profit of associates of $3.3 million for the second quarter of 2013 and $6.2 million for the first six months of 2013 reflects Lancashire's 20% equity interest in the Accordion vehicle and 16.9% interest in the Saltire vehicle. The share of loss of associates was $1.4 million for the second quarter of 2012 and the share of profit of associates was $1.5 million for the first six months of 2012 and related entirely to the Accordion vehicle.

During the quarter, Lancashire established Kinesis Capital Management Limited ("KCM") and Kinesis Reinsurance I Limited ("Kinesis Re") in Bermuda. Both entities have been authorised by the Bermuda Monetary Authority. KCM will provide underwriting services to Kinesis Re, which has been authorised as a Bermuda segregated account company. Darren Redhead will serve as the CEO and Chief Underwriting Officer of KCM. KCM has also employed Mathieu Marsan, who is an experienced actuary and risk modeler. Third party investors will be invited to invest in the Kinesis Re segregated accounts for specific underwriting opportunities. KCM will underwrite multi-class reinsurance business on behalf of Kinesis Re. KCM expects to underwrite collateralised reinsurance with a varied group of investors for the January 2014 reinsurance renewal season, although there may be underwriting opportunities before then. Goldman Sachs has been engaged as placement agents. The Kinesis facility will provide a flexible platform to align third party investors with reinsurance opportunities. In the longer term, it is expected that KCM will generate a stream of fee income for Lancashire.

**Other operating expenses**

Operating expenses consist of the following items:

| | Q2 | | YTD | |
|---|---|---|---|---|
| | 2013 $m | 2012 $m | 2013 $m | 2012 $m |
| Employee remuneration | 8.9 | 9.0 | 18.8 | 27.5 |
| Other operating expenses | 8.4 | 8.1 | 15.5 | 14.0 |
| **Total** | **17.3** | **17.1** | **34.3** | **41.5** |

In the first quarter of 2012 employee remuneration included a one-off national insurance charge of $6.9 million, incurred as a result of the Group's tax residency move to the UK with effect from 1 January 2012.

Equity based compensation was $3.7 million in the second quarter of 2013 compared to $2.5 million in the same period last year. For the six months to 30 June 2013 and 2012 the charge was $7.2 million and $5.9 million respectively.

**Capital**

At 30 June 2013, total capital was $1.525 billion, comprising shareholders' equity of $1.266 billion and $258.3 million of long-term debt. Leverage was 16.9%. Total capital at 30 June 2012 was $1.549 billion.

**Dividends**

During the first quarter of 2013, the Lancashire Board of Directors declared a final dividend in respect of 2012 of $0.10 (£0.07) per common share and an additional special dividend for 2012 of $1.05 (£0.69 pence) per common share. The dividends, totaling $220.6 million, were paid on 17 April 2013 to shareholders of record on 22 March 2013.

Lancashire announces that its Board has declared an interim dividend for 2013 of $0.05 per common share (approximately (£0.03) per common share at the current exchange rate), which will result in an aggregate payment of approximately $8.1 million. The dividend will be paid in Pounds Sterling on 25 September 2013 (the "Dividend Payment Date") to shareholders of record on 23 August 2013 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

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

In addition to the interim dividend payment to shareholders, a dividend equivalent payment of approximately $1.5 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

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 2013 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.**

**Prior to the end of July 2013, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2013 via our 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 / 8:00am EDT on Thursday, 25 July 2013. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44 (0)203 139 4830 / + 1 718 873 9077 (Toll Free UK +44 (0)808 2370 030 / Toll Free US + 1 866 928 7517) all with the confirmation code 82288039#. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available for two weeks until Thursday, 8 August 2013. The dial in number for the replay facility is Toll +44 (0)203 426 2807 or Toll Free UK +44 (0) 808 237 0026 with passcode 640051#. The replay facility will also be accessible at www.lancashiregroup.com

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Group's website www.lancashiregroup.com.

**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)** | **Long Term Issuer Rating (2)** | **Outlook** |
|---|---|---|---|
| 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 and mailing address at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire, visit the Company's website at www.lancashiregroup.com

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

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

**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 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', '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 TAX RESIDENCY OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP"), ITS 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 THE GROUP WRITES; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS 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; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; 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 HOLDINGS LIMITED OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE NEW UK CFC REGIME; ANY CHANGE IN THE UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME; AND THE NEGATIVE IMPACT IN ANY MATERIAL WAY OF THE CHANGE IN TAX RESIDENCE OF LANCASHIRE HOLDINGS LIMITED ON ITS STAKEHOLDERS.

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

## Consolidated statement of comprehensive income
(Unaudited)

| | Quarter 2 2013 $m | Quarter 2 2012 $m | YTD 2013 $m | YTD 2012 $m |
|---|---|---|---|---|
| Gross premiums written | 209.0 | 280.8 | 423.9 | 514.8 |
| Outwards reinsurance premiums | (19.9) | (47.3) | (116.2) | (149.2) |
| **Net premiums written** | **189.1** | **233.5** | **307.7** | **365.6** |
| Change in unearned premiums | (49.4) | (88.7) | (96.8) | (143.8) |
| Change in unearned premiums ceded | (13.0) | 5.4 | 49.6 | 69.9 |
| **Net premiums earned** | **126.7** | **150.2** | **260.5** | **291.7** |
| Net investment income | 6.5 | 8.4 | 12.6 | 17.1 |
| Net other investment income (losses) | 4.4 | (0.2) | 3.8 | 0.5 |
| Net realised gains (losses) and impairments | 4.2 | 3.7 | 12.1 | 4.9 |
| Share of profit (loss) of associates | 3.3 | (1.4) | 6.2 | 1.5 |
| Other income | 0.3 | - | 0.6 | - |
| Net foreign exchange (losses) gains | (0.1) | (2.8) | 3.6 | (0.4) |
| **Total net revenue** | **145.3** | **157.9** | **299.4** | **315.3** |
| Insurance losses and loss adjustment expenses | 66.5 | 85.1 | 105.7 | 164.8 |
| Insurance losses and loss adjustment expenses recoverable | (28.2) | (43.2) | (44.4) | (72.4) |
| Net insurance acquisition expenses | 29.2 | 32.1 | 57.7 | 62.0 |
| Equity based compensation | 3.7 | 2.5 | 7.2 | 5.9 |
| Other operating expenses | 17.3 | 17.1 | 34.3 | 41.5 |
| **Total expenses** | **88.5** | **93.6** | **160.5** | **201.8** |
| **Results of operating activities** | **56.8** | **64.3** | **138.9** | **113.5** |
| Financing costs | (1.5) | 3.7 | 1.7 | 6.4 |
| **Profit before tax** | **58.3** | **60.6** | **137.2** | **107.1** |
| Tax charge | 2.1 | 2.1 | 3.1 | 3.4 |
| **Profit for the period attributable to equity shareholders** | **56.2** | **58.5** | **134.1** | **103.7** |
| Net change in unrealised gains/losses on investments | (25.4) | 0.5 | (37.4) | 11.7 |
| Tax recovery (expense) on net change in unrealised gains/losses on investments | 0.4 | - | 0.8 | (0.2) |
| **Other comprehensive (loss) income** | **(25.0)** | **0.5** | **(36.6)** | **11.5** |
| **Total comprehensive income attributable to equity shareholders** | **31.2** | **59.0** | **97.5** | **115.2** |
| Net loss ratio | 30.2% | 27.9% | 23.5% | 31.7% |
| Net acquisition cost ratio | 23.0% | 21.4% | 22.1% | 21.3% |
| Administrative expense ratio | 13.7% | 11.4% | 13.2% | 14.2% |
| Combined ratio | 66.9% | 60.7% | 58.8% | 67.2% |
| Basic earnings per share | $0.34 | $0.37 | $0.84 | $0.65 |
| Diluted earnings per share | $0.30 | $0.32 | $0.74 | $0.57 |
| Change in fully converted book value per share | 2.0% | 3.6% | 7.0% | 7.1% |

**Consolidated balance sheet**

| | Unaudited 30 Jun 2013 $m | Unaudited 30 Jun 2012 $m | Audited 31 Dec 2012 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 413.6 | 328.1 | 295.8 |
| Accrued interest receivable | 7.5 | 9.0 | 9.3 |
| Investments | | | |
| - Fixed income securities, available for sale | 1,614.9 | 1,767.0 | 1,874.5 |
| - Other investments | 8.1 | (0.3) | 0.1 |
| Reinsurance assets | | | |
| - Unearned premiums on premiums ceded | 61.1 | 78.7 | 11.5 |
| - Reinsurance recoveries | 87.2 | 108.7 | 73.0 |
| - Other receivables | 0.8 | 0.6 | 4.5 |
| Deferred acquisition costs | 81.2 | 83.0 | 68.0 |
| Other receivables | 4.2 | 16.4 | 2.7 |
| Inwards premiums receivable from insureds and cedants | 276.6 | 335.3 | 207.0 |
| Deferred tax asset | 5.7 | 5.8 | 7.3 |
| Corporation tax receivable | - | - | 0.4 |
| Investment in associates | 53.6 | 43.5 | 82.1 |
| Property, plant and equipment | 2.1 | 4.1 | 2.8 |
| Intangible asset | - | 2.9 | - |
| **Total assets** | **2,616.6** | **2,782.8** | **2,639.0** |
| | | | |
| **Liabilities** | | | |
| Insurance contracts | | | |
| - Losses and loss adjustment expenses | 513.8 | 576.6 | 537.4 |
| - Unearned premiums | 440.1 | 490.9 | 343.3 |
| - Other payables | 24.8 | 23.6 | 23.5 |
| Amounts payable to reinsurers | 43.7 | 69.9 | 30.6 |
| Deferred acquisition costs ceded | 3.9 | 5.5 | 0.8 |
| Other payables | 64.0 | 59.9 | 49.3 |
| Corporation tax payable | - | 0.2 | - |
| Interest rate swap | 1.7 | 7.5 | 8.0 |
| Long-term debt | 258.3 | 126.9 | 258.7 |
| **Total liabilities** | **1,350.3** | **1,361.0** | **1,251.6** |
| | | | |
| **Shareholders’ equity** | | | |
| Share capital | 84.3 | 84.3 | 84.3 |
| Own shares | (47.3) | (68.2) | (57.1) |
| Share premium | 2.4 | 2.4 | 2.4 |
| Contributed surplus | 652.6 | 659.7 | 654.4 |
| Accumulated other comprehensive income | (1.2) | 29.1 | 35.4 |
| Other reserves | 51.1 | 52.6 | 57.1 |
| Retained earnings | 524.4 | 661.9 | 610.9 |
| **Total shareholders' equity attributable to equity shareholders** | **1,266.3** | **1,421.8** | **1,387.4** |
| **Total liabilities and shareholders' equity** | **2,616.6** | **2,728.8** | **2,639.0** |

**Statement of consolidated cashflows**
(unaudited)

| | Unaudited Six months 2013 | Unaudited Six months 2012 | Audited Twelve months 2012 |
|---|---|---|---|
| | $m | $m | $m |
| **Cash flows from operating activities** | | | |
| Profit before tax | 137.2 | 107.1 | 236.8 |
| Tax paid | 0.4 | (1.2) | (1.2) |
| Depreciation | 0.7 | 1.4 | 2.8 |
| Interest expense on long-term debt | 6.2 | 2.8 | 7.2 |
| Interest and dividend income | (22.5) | (24.7) | (48.4) |
| Net amortisation of fixed income securities | 6.7 | 5.6 | 11.8 |
| Equity based compensation | 7.2 | 5.9 | 16.4 |
| Foreign exchange (gains) losses | (1.8) | (1.9) | (7.1) |
| Share of profit of associates | (6.2) | (1.5) | (7.7) |
| Net other investment (income) losses | (3.8) | (0.5) | (0.7) |
| Net realised (gains) losses and impairments | (12.1) | (4.9) | (11.8) |
| Net unrealised (gains) losses on interest rate swaps | (6.3) | 1.4 | 1.9 |
| Loss on disposal of intangible asset | - | - | 2.9 |
| Changes in operational assets and liabilities | | | |
| - Insurance and reinsurance contracts | (40.3) | (36.1) | (17.7) |
| - Other assets and liabilities | 12.1 | 6.8 | 8.1 |
| **Net cash flows from operating activities** | **77.5** | **60.2** | **193.3** |
| **Cash flows from (used in) investing activities** | | | |
| Interest, dividends and other income received | 25.6 | 25.7 | 49.1 |
| Net purchase of property, plant and equipment | - | (0.2) | (0.2) |
| Purchase and development of intangible asset | - | (1.7) | (1.7) |
| Investment in associates | 34.7 | 8.9 | (23.6) |
| Purchase of fixed income securities | (612.2) | (852.3) | (1,681.8) |
| Proceeds on maturity and disposal of fixed income securities | 833.1 | 811.1 | 1,541.4 |
| Net proceeds on other investments | 2.2 | (1.2) | (3.2) |
| **Net cash flows from (used in) investing activities** | **283.4** | **(9.7)** | **(120.0)** |
| **Cash flows used in financing activities** | | | |
| Interest paid | (6.1) | (2.9) | (5.5) |
| Issuance of long-term debt | - | - | 130.0 |
| Dividends paid | (220.6) | (19.2) | (201.4) |
| Distributions by trust | (5.9) | (7.9) | (8.7) |
| **Net cash flows used in financing activities** | **(232.6)** | **(30.0)** | **(85.6)** |
| **Net increase (decrease) in cash and cash equivalents** | **128.3** | **20.5** | **(12.3)** |
| Cash and cash equivalents at beginning of period | 295.8 | 311.8 | 311.8 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (10.5) | (4.2) | (3.7) |
| **Cash and cash equivalents at end of period** | **413.6** | **328.1** | **295.8** |