THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should immediately consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole text of this document should be read.

This document comprises an admission document prepared in accordance with the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules and has not been approved by the Financial Services Authority. Lancashire Holdings Limited (the "Company"), whose registered office appears on page 6 and the Directors of the Company, whose names appear on page 6 under the heading "Directors, Officers and Advisers", accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Common Shares to be admitted to trading on AIM. The Common Shares are not dealt in on any other recognised investment exchange and no application is being or has been made for the Common Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

YOUR ATTENTION IS DRAWN TO PART 3 OF THIS DOCUMENT WHICH LISTS CERTAIN RISKS WHICH SHOULD BE TAKEN INTO ACCOUNT IN CONSIDERING WHETHER OR NOT TO ACQUIRE COMMON SHARES.

It is expected that Admission will become effective and that unconditional dealings in the Common Shares will commence on AIM on 16 December 2005. Dealings on AIM before Admission will only be settled if Admission takes place. All dealings in Common Shares prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned. In addition, it should be noted that, although A.M. Best has indicated that (subject to receipt of necessary funding) the Group will be granted an "A-" financial strength rating, if A.M. Best is unable or unwilling for any reason to grant the initial "A-" financial strength rating to the Group after the Group has demonstrated to A.M. Best the receipt of necessary funds, it is likely that the Common Shares would be suspended and the Company may seek to return the net proceeds of the Placing to Shareholders.

LANCASHIRE HOLDINGS LIMITED

(incorporated and registered in Bermuda under registration number EC37415)

Placing of 182,013,902 Common Shares of US$0.50 each at a price of 284 pence per Common Share and admission to trading on AIM

Sole Bookrunner, Lead Manager, Nominated Adviser and Broker

Merrill Lynch International

Joint Lead Manager

JPMorgan Cazenove

Co-Lead Managers

Fox-Pitt, Kelton **Teather & Greenwood**

Joint Financial Advisers

Benfield Advisory **Kinmont**

In connection with the Placing, Merrill Lynch, as stabilising manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the Common Shares at a level higher than that which might otherwise prevail in the open market. Merrill Lynch is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be taken during the period from 13 December 2005 up to and including 23 December 2005.

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Common Shares in any jurisdiction in which such an offer or solicitation is unlawful. In particular, the Common Shares offered by this document have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or qualified for sale under the laws of any state of the US or under the applicable laws of any of Canada, Australia or Japan, and, subject to certain exceptions, may not be offered or sold in the US or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia or Japan. Neither this document nor any copy of it may be sent to or taken into the US, Canada, Australia or Japan nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act) or to any Canadian persons. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdictions.

No Common Shares have been offered or sold, or will be offered or sold, to the public in any member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") except (with effect from and including the Relevant Implementation Date): (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Merrill Lynch; or (d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

The Bermuda Monetary Authority (the "BMA") must approve all issues and transfers of shares of a Bermuda exempted company under the Exchange Control Act of 1972 and regulations thereunder (the "ECA"). The BMA has given a general permission which will permit the sale of the Common Shares and the free transferability of such shares under the ECA so long as voting securities of the Company are admitted to trading on AIM. The BMA does not accept any responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed herein.

In connection with the Placing, the Managers and any of their affiliates, acting as investors for their own accounts, may take up Common Shares and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Common Shares and other securities of the Company or related investments in connection with the Placing or otherwise. Accordingly, references in this document to the Common Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, dealing or placing by the Managers and any of their affiliates acting as investors for their own accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Merrill Lynch, JPMorgan Cazenove, Fox-Pitt, Kelton, Teather & Greenwood, Benfield Advisory and Kinmont, each of which is authorised and regulated in the UK by the Financial Services Authority, are each acting for the Company and no-one else in connection with the Placing and Admission and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Placing and Admission, this document or any other matter. Merrill Lynch's responsibilities as the nominated adviser to the Company are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person, whether in respect of any decision to acquire Common Shares, in relation to any part of this document or otherwise.

THE UNITED STATES FEDERAL TAX ADVICE CONTAINED HEREIN IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE COMMON SHARES, AND IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING US TAX PENALTIES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THEIR PARTICULAR CIRCUMSTANCES CONCERNING THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF OWNING THE COMMON SHARES.

Copies of this document, which is dated 13 December 2005, will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and from the offices of Merrill Lynch at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ for one month from the date of Admission.

Forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the Group's and the Directors' current intentions, beliefs or expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not an assurance of future performance. The Group's actual results of operations, financial condition and liquidity, and the development of the business sector in which the Group operates, may differ materially from those suggested by the forward-looking statements contained in this document. In addition, even if the Group's results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors must read, in particular, the parts of this document entitled Part 2 – Information on the Group, Part 3 – Risk Factors, Part 4 – Details of the Placing, Part 5 – Regulation and Monitoring, Part 6 – Accountant's Report and Financial Information on the Company and Part 7 – Illustrative Summary Consolidated Financial Projections of the Group, for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

Any forward-looking statements in this document reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth, strategy and liquidity. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Other than in accordance with the Company's obligations under the AIM Rules, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Neither the forward-looking statements nor the underlying assumptions have been verified or audited by any third party.

Market data and forecasts

Various market data and forecasts used in this document, including, for example, historic information on catastrophe losses as well as estimates of growth in the Group's industry, have been obtained from independent industry sources. The Group has not verified the data obtained from these sources and cannot give any guarantee of the accuracy or completeness of the data. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications, risks and uncertainties described above.

Currencies

The Company's accounts will be denominated in US dollars. All references in this document to "pounds sterling", "pence", "£" or "p" are to the lawful currency of the UK, references to "US dollars" or "US$" or "cents" are to the lawful currency of the US, all references to "BMD", "BD$" or "Bermudian dollars" are to the lawful currency of Bermuda and all references to "Euros" or "€" are to the lawful currency of the European Union (as adopted by certain member states).

In this document US dollar amounts which have been translated into pounds sterling have been translated at a rate of US$1.7606: £1.00 being the rate prevailing on 12 December 2005.

CONTENTS

DIRECTORS, OFFICERS AND ADVISERS

Directors and Proposed Directors

Robert Alan Spass *(Non-Executive Chairman)*
Richard David Henry Brindle *(Chief Executive Officer and Chief Underwriting Officer)*
Neil William McConachie *(Chief Financial Officer and Chief Operating Officer)*
Colin Michael Alexander *(Non-Executive Director)*
Ralf Siegfried Oelssner *(Non-Executive Director)*
William Larry Spiegel *(Non-Executive Director)*
Barry Stuart Volpert *(Non-Executive Director)*

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Registered Office of the Company

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Company Secretary

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Depositary
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The Registry
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Kent BR3 4TU
England

PLACING STATISTICS

Placing Price	284p
Number of Existing Common Shares in issue prior to the Placing	3,200,000
Number of Placing Shares	182,013,902
Number of Institutional Placing Shares	70,000,000
Number of Subscription Shares	112,013,902
Number of Common Shares subject to over-allotment option	10,500,000
Number of Common Shares in issue immediately following the Placing[1]	185,213,902
Estimated proceeds of the Placing receivable by the Company after expenses	US$884.8 million
Market capitalisation of the Company on Admission at the Placing Price[1]	£526.0 million (US$926.1 million)

EXPECTED TIMETABLE

Conditional dealings in Common Shares commence[2]	13 December 2005
Admission and commencement of unconditional dealings	16 December 2005
CREST accounts credited in respect of the Depositary Interests	16 December 2005
Definitive share certificates despatched in respect of the Common Shares (where applicable)	by 9 January 2006

1 Stated before the exercise of Options under the Long Term Incentive Plan and the Warrants and assuming no exercise of the over-allotment option granted by the Company.

2 It should be noted that if Admission does not occur all conditional dealings will be of no effect and any share dealings will be at the sole risk of the parties concerned. In addition, it should be noted that, although A.M. Best has indicated that (subject to receipt of necessary funding) the Group will be granted an "A-" financial strength rating, if A.M. Best is unable or unwilling for any reason to grant the initial "A-" financial strength rating to the Group after the Group has demonstrated to A.M. Best the receipt of necessary funds, it is likely that the Common Shares would be suspended and the Company may seek to return the net proceeds of the Placing to Shareholders.

PART 1

KEY INFORMATION

The following information does not purport to be complete and is derived from and qualified in its entirety by, and should be read in conjunction with, more detailed information appearing elsewhere in this document.

Any decision to invest in Common Shares should be based on consideration of this document as a whole.

See Part 3 – Risk Factors for a discussion of certain factors that must be taken into account when considering whether to acquire Common Shares.

1. Introduction

The Group has been newly established to take advantage of what the Directors expect to be favourable underwriting conditions arising from anticipated market dislocation in specific classes of insurance business where substantial losses have resulted from hurricanes in 2004 and 2005. The Group will aim to create a balanced and diversified portfolio of insurance, reinsurance and retrocession business. The Group's expected underwriting strategy can be characterised as having exposure to low frequency, high severity losses, with an emphasis on retrocession, marine and energy and property classes. The Directors expect that the Group will commence underwriting with effect from 1 January 2006 in these classes on a worldwide basis (subject to compliance with local regulatory requirements).

2. Key strengths

The Directors believe that the Group will benefit in particular from the following key strengths:

- an experienced and successful senior management and underwriting team;
- a focused business plan targeted around specialist classes of business which are expected to benefit significantly from market dislocation created by hurricanes Katrina, Rita and Wilma;
- an initial strong and unencumbered capital base and an indicative "A-" A.M. Best financial strength rating (subject to receipt of the necessary funding); and
- the advantages of being newly established without exposure to losses relating to hurricanes Katrina, Rita and Wilma.

3. Directors and senior management

The Group will benefit from an experienced Board of Directors and a senior management team who, together, offer in-depth relevant industry experience, risk management skills and good underwriting judgement. In particular, Richard Brindle, the Company's Chief Executive Officer and Chief Underwriting Officer, is a successful and experienced figure in the insurance and reinsurance industry.

4. The Placing, Debt Financing and use of proceeds

The Company is seeking to raise approximately US$884.8 million (net of expenses) by way of the Placing, issuing 182,013,902 Common Shares, which will represent 98.3 per cent. of the issued common share capital of the Company immediately after Admission (assuming no exercise of the over-allotment option). Of these, 70,000,000 Common Shares will be Institutional Placing Shares and 112,013,902 Common Shares will be Subscription Shares. Pursuant to the Placing Agreement, the Managers have agreed to procure subscribers for the Placing Shares, failing which the Managers have agreed severally and not jointly themselves to subscribe, on the terms and subject to the conditions set out in the Placing Agreement, for the Placing Shares proposed to be issued by the Company at the Placing Price (provided that the obligation to procure subscribers for the Subscription Shares shall be satisfied by the execution of the New Subscription Agreements by the Subscribers). The Company also intends, effective as of Admission, to raise approximately US$121.9 million (net of expenses) through the Debt Financing. The Placing is intended,

together with the Debt Financing, to provide the Group with its capital requirements for commencing its insurance operations and for working capital purposes.

5. Lock-Up Agreements

The Directors, applicable employees and all other related parties (as such terms are defined in the AIM Rules) who, in each case, hold Common Shares have (with effect from Admission and subject to certain limited exceptions) undertaken not to dispose of any interests in any of their Common Shares for a period of 12 months following Admission. The Subscribers (other than those who have entered into lock-up agreements as described in the previous sentence) have also undertaken not to dispose of any interests in any of their Common Shares for a period of six months following Admission (without the prior written consent of Merrill Lynch) subject to certain limited exceptions. In addition, under the Placing Agreement, the Company has undertaken not to issue any further Common Shares for a period of 12 months from Admission (without the prior written consent of Merrill Lynch) subject to certain exceptions.

6. Warrants

The Management Team (or other Group employees) will receive Warrants to purchase Common Shares representing 5 per cent. of the Fully Diluted Common Share Capital and further performance related Warrants to purchase up to 3 per cent. of the Fully Diluted Common Share Capital. The Initial Founders will receive Warrants to purchase Common Shares, representing 7 per cent. of the Fully Diluted Common Share Capital. Benfield will receive Warrants to purchase Common Shares, representing 3 per cent. of the Fully Diluted Common Share Capital. Warrants issued to the Initial Founders and Benfield will be exercisable upon Admission.

7. Dividend policy

The Directors intend to manage capital actively to ensure that the Group has an appropriate level and mix of capital. The Directors intend to maintain a strong balance sheet at all times to ensure an adequate financial strength rating from A.M. Best and to match available underwriting opportunities. The Group will engage in an active and ongoing dialogue with A.M. Best (and other credit rating agencies as appropriate) and will seek to maintain at least an "A-" financial strength rating from A.M. Best. Subject to the Group being satisfied that to do so will not prejudice its ability to maintain at least an A.M. Best "A-" financial strength rating, the Directors intend to focus on total shareholder return and intend to return capital to Shareholders where appropriate, including by way of dividends. It is envisaged that any dividends payable may be paid on a quarterly, semi-annual or annual basis as declared by the Directors at the applicable time.

Potential investors should refer to Part 3 – Risk Factors which lists certain risks which should be taken into account in considering whether or not to acquire Common Shares. In particular, potential investors should be aware that the insurance and reinsurance industries can be highly cyclical and volatile and are subject to exposure to significant unpredictable losses. Accordingly, there can be no assurance that, in any given year, profits will be available for distribution.

All dividends will be subject to the future financial performance of the Group including results of operations and cash flows, the Group's financial position and capital requirements, rating agency considerations, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors the Directors deem relevant in their discretion, which will be taken into account at the time.

PART 2

INFORMATION ON THE GROUP

1. Introduction

The Group has been newly established to take advantage of what the Directors expect to be favourable underwriting conditions arising from anticipated market dislocation in specific classes of business where substantial losses have resulted from hurricanes in 2004 and 2005. The Group will aim to create a balanced and diversified portfolio of insurance, reinsurance and retrocession business. The Group's expected underwriting strategy can be characterised as having exposure to low frequency, high severity losses, with an emphasis on retrocession, marine and energy and property classes. The Directors expect that the Group will commence underwriting with effect from 1 January 2006 in these classes on a worldwide basis (subject to compliance with local regulatory requirements).

The main contributing factor to anticipated market dislocation is the effect of losses related to hurricanes Katrina, Rita and Wilma. These hurricanes have led to an unprecedented level of insured catastrophe losses in 2005, with hurricane Katrina being the largest estimated insured event in history. RMS has estimated that total insured losses relating to hurricanes Katrina, Rita and Wilma are up to approximately US$79 billion.

The 2005 hurricane losses came at a time when insurance and reinsurance markets were still recovering from a series of four major hurricanes suffered in the 2004 hurricane season, which caused insured losses estimated by sigma at approximately US$28 billion. Damage to infrastructure, onshore and offshore oil and gas industry installations and buildings caused by hurricanes Katrina, Rita and Wilma has been so severe and widespread that it is expected to be a considerable length of time before overall losses can be estimated with any accuracy and a determination as to who is liable for certain losses can be made. The Directors anticipate further loss deterioration from certain companies which have already announced their loss estimates and believe that it is likely that this will result in a further reduction in capacity in the affected markets.

As a result of these circumstances, the Directors anticipate significant upward pricing adjustments and improved terms and conditions in those classes that are expected to suffer the largest losses from hurricanes Katrina, Rita and Wilma, namely the retrocession, marine and energy and property classes. The Group plans to write the bulk of its premium income in these classes.

2. Key strengths

The Directors believe that the Group will benefit from the following key strengths:

- a Chief Executive Officer and Chief Underwriting Officer who has a track record of both moving decisively when market opportunities present themselves and underwriting profitably when markets are soft;
- a carefully selected team chosen for their complementary skills, market reputation, insurance market following and experience of building a business;
- an underwriting team who, together, offer in-depth, relevant industry experience, risk management skills and good underwriting judgement;
- a focused business plan targeted around specialist classes of business which are expected to benefit significantly from the market dislocation created by the recent hurricanes, with an emphasis on retrocession, marine and energy and property classes;
- product type diversity across its targeted classes, all of which have been underwritten previously by members of the underwriting team;
- proposed representation on the Board by members of the Initial Founders which have significant relevant experience in the insurance and reinsurance industry;
- an underwriting strategy of creating a balanced and diversified portfolio which can be characterised as having exposure to low frequency, high severity losses;

- underwriting skills and long-standing broker and customer relationships which enable the Group to select attractive opportunities;
- a proposed collegiate approach to the underwriting of all business which will foster decision-making across product lines using the combined expertise of the underwriting team; and
- an initial strong and unencumbered capital base and an indicative "A-" A.M. Best financial strength rating (subject to receipt of the necessary funding).

Unlike many established vehicles, which have considerable exposure to the significant catastrophe losses of 2005, the Group (as it is newly established) benefits from having no uncertainty with regard to historic losses. Similarly, the Group is not exposed to the following factors associated with such losses:

- losses potentially not covered by outwards reinsurance;
- credit risks related to default on outwards reinsurance;
- claims administration issues; or
- cash flow problems relating to claims payments being required prior to reinsurance recoveries.

3. Industry overview

3.1 *General*

By its nature, the insurance and reinsurance industry demonstrates a cyclical premium rating profile. Consequently, the industry can provide attractive underwriting opportunities at certain stages in the cycle. The Directors believe that the anticipated underwriting conditions in specific classes of insurance, reinsurance and retrocession provide such an opportunity.

3.2 *Current underwriting environment*

Estimated insured catastrophe losses from hurricanes Katrina, Rita and Wilma in the second half of 2005 are at unprecedented levels, with hurricane Katrina being estimated to be the largest insured event in history. RMS has estimated that total insured losses relating to hurricanes Katrina, Rita and Wilma are up to approximately US$79 billion. As at 9 December 2005, RMS estimated that for hurricane Katrina alone insured losses would amount to between US$40 billion and US$60 billion whereas reported insured losses stood at US$26 billion based on relevant public announcements. The Directors therefore estimate that there could be a gap of up to approximately US$34 billion between the upper end of industry loss estimates relating to hurricane Katrina and public disclosures to date (excluding the estimated State Farm losses described below). The Directors expect this gap to be reduced through companies increasing their loss estimates which the Directors believe will in turn reduce the affected companies' capacity to write new business. In stating these current reported insured losses, the Directors have excluded any estimate of State Farm's ultimate loss position. State Farm has filed a loss report suggesting that it expects its gross losses resulting from hurricanes in the third quarter of 2005 to be in the region of US$8 billion to US$9 billion (according to the quarterly financial filing with the Illinois Division of Insurance as at 30 September 2005). However, State Farm's estimated losses may include losses which have already been reported by other reinsurers or which ultimately will be paid from other sources (such as the National Flood Insurance Program).

Historically, the insurance industry has enjoyed attractive underwriting conditions following major catastrophes. For example, the insurance industry was highly profitable following hurricane Andrew in 1992 and the US terror attacks of 2001. Although market conditions in 2005 are different to those in 1992 and 2001, the Directors nevertheless anticipate significant upward pricing adjustments and improved terms and conditions in those markets that are expected to suffer the largest losses from hurricanes Katrina, Rita and Wilma, namely the retrocession, marine and energy and property markets. The Directors believe that it is likely that there will be favourable conditions in other niche lines of business (such as war and terrorism) which the Group also intends to target.

3.3 *Rating agencies and capital raising*

Financial strength ratings provided by A.M. Best or Standard & Poor's are normally a minimum security requirement for providers of both commercial insurance and reinsurance. The generally accepted entry level for the Company's target markets is a financial strength rating of "A-" from either A.M. Best or Standard & Poor's.

The magnitude of catastrophe insurance losses suffered in 2005 has impaired some insurers' and reinsurers' balance sheets. This has caused widespread ratings downgrades and "credit watch" actions by the credit rating agencies. The Directors believe this has led to exits or reductions in participation by certain insurers and reinsurers from certain of the classes of business which the Group intends to target, and further exits or reductions in participation are expected by the Directors.

Furthermore, certain market participants have indicated that both A.M. Best and Standard & Poor's have been reviewing their rating methodologies following the impact of the 2005 hurricane season and have increased (and may further increase) the levels of capital required to achieve and maintain an A.M. Best or Standard & Poor's financial strength rating of "A-". Such increases require (or would require) either higher levels of capital to be maintained or lower levels of premium to be written.

Following hurricane Katrina, in order to strengthen their capital bases and to benefit from market opportunities from anticipated buoyant rates in 2006, as at 9 December 2005 existing insurers and reinsurers had completed or had committed to capital raisings of approximately US$14.1 billion (according to company and public announcements), with an anticipated potential further pipeline of approximately US$3.3 billion (according to company and public announcements).

3.4 *Expected underwriting environment*

The Directors expect a net reduction in market capacity in all of the Group's targeted lines as well as an increase in demand for certain of its targeted lines. The Directors consider that the impact of the 2005 catastrophe losses, together with losses from the 2004 hurricane season, is likely to create a dislocation in the pricing of certain classes of insurance and reinsurance business. Specifically, the Directors expect that future pricing increases and improvements in terms and conditions are likely to be most acute in the retrocession, marine and energy and property markets.

The Directors expect the resultant strong underwriting environment in those classes in 2006 to continue until 2008 as a result of greater underwriting discipline across the market and the impact of the continued deterioration of losses relating to hurricanes Katrina, Rita and Wilma on existing insurers' and reinsurers' balance sheets.

4. Underwriting objectives and strategy

4.1 *Overview*

The underlying objective of the Group is to take advantage of what the Directors expect to be favourable underwriting conditions arising from anticipated dislocation in specific classes of insurance business where substantial losses have resulted from hurricanes in 2004 and 2005. The Group will aim to create a balanced and diversified portfolio of insurance, reinsurance and retrocession business. The Group's expected underwriting strategy can be characterised as having exposure to low frequency, high severity losses, with an emphasis on retrocession, marine and energy and property classes. The Group's underwriting team has underwriting experience in all of the specific classes of business expected to be underwritten by the Group.

The underwriting team will (for the most part) aim to avoid exposure to attritional losses, typically writing in the mid to high layers of a customer's programme and attaching at high return periods (for reinsurance and retrocession business), or with high deductibles and tight loss limits (for insurance business).

4.2 *Target classes of business*

The table below is indicative of the types of business which the Group intends to target. The Group will pursue a dynamic underwriting strategy driven by market conditions and opportunities and,

accordingly, the scope and relative size of business discussed in this section is purely indicative and may change depending on evolving market conditions.

INDICATIVE CLASSES OF BUSINESS AND ILLUSTRATIVE GROSS WRITTEN PREMIUMS

US$ MILLION	*2006*	*2007*	*2008*
Reinsurance and retrocession classes			
Non-marine property catastrophe retrocession	125	132	124
Marine and energy excess of loss	100	115	110
Sub total	225	247	234
Insurance classes			
Energy offshore	158	157	158
Property direct insurance and facultative reinsurance	150	158	149
Property terrorism	100	105	110
Marine hull, total loss and war	74	85	81
Aviation terrorism third party	70	74	77
Energy onshore	45	47	45
Sub total	597	626	620
Total	822	873	854

Note: All figures are purely illustrative unaudited estimates of the Directors

This table must be read in conjunction with the risk factors set out in Part 3 – Risk Factors and the principal bases and assumptions set out in Part 7 – Illustrative Summary Consolidated Financial Projections of the Group.

The above illustrative portfolio is based on the Directors' expectation of movements in market premium rates and underwriting terms and conditions over the next three years. The Directors intend to focus on optimising returns on capital. If rates reduce and thus become less attractive, the Group intends to reduce the amount of business which it writes and will consider returning capital to Shareholders, subject to applicable legal, regulatory and ratings considerations and its future financial performance.

The following is a summary of the Group's intended target classes of business:

4.2.1 ***Reinsurance and retrocession classes***

Non-marine property catastrophe retrocession

The non-marine property catastrophe retrocession class provides protection for reinsurance portfolios covering the aggregation of property losses resulting from catastrophe events which are normally weather or tectonic-related.

The Group's intention is to write in the mid to high layers of a cedant's programme in order to avoid attritional losses. It is, therefore, anticipated that losses would be low frequency, high severity and restricted to the most severe types of natural catastrophe. Catastrophe exposure will be managed by monitoring geographic aggregations and correlations and by purchasing reinsurance. The majority of the policies in this class incept on 1 January of each year.

Marine and energy excess of loss

The marine and energy excess of loss class provides protection to direct marine and energy insurers against large risk losses and the aggregation of losses due to a single event.

The Group will target risks in the mid to high layers of reinsurance programmes and will therefore aim only to be impacted by the larger losses, such as those relating to onshore and offshore oil platforms, avoiding most of the more attritional marine hull and cargo losses. The majority of the policies in this class incept on 1 January of each year.

The Group also intends to write a line on the shared reinsurance programme that is purchased by the "P&I clubs". This programme provides marine liability protection to the P&I clubs, which are a form of mutual shipping insurer providing cover solely for marine liability. This programme incepts on 20 February of each year.

4.2.2 ***Insurance classes***

Energy offshore

The energy offshore class provides catastrophe and non-catastrophe insurance protection to energy companies both in the Gulf of Mexico and on a worldwide basis.

The Group's underwriting strategy will be to target a select group of operators. Policies are anticipated to be written with high deductibles, resulting in expected low attritional loss rates. Policy inception dates for this class are spread throughout the year.

Property direct insurance and facultative reinsurance

The property direct insurance and facultative reinsurance class provides protection to commercial property portfolios in excess of deductible layers.

The Group intends to write risks in a manner which seeks to minimise attritional losses and to avoid clashes between this class and the remainder of the portfolio. Where a geographic area has exposures from other parts of the portfolio, the Group intends that policies in this area will be written excluding catastrophic risk and hence the single biggest risk under such policies will be losses related to fire. The Directors believe that this class allows accurate risk management of aggregations as each individual risk can be mapped according to the geographic location of insured property. Policy inception dates for this class are spread throughout the year.

Property terrorism

The property terrorism class provides protection to direct insurers in respect of terrorist acts affecting US and non-US risks. In US territories this is expected to include terrorist acts perpetrated on behalf of foreign persons or interests which are not otherwise covered by TRIA (or any equivalent programme sponsored by the US government) as well as terrorist acts perpetrated on behalf of US persons or interests. This class expanded significantly in the aftermath of the US terror attacks in 2001 when specific exclusions were written into property catastrophe policies and TRIA was enacted by the US government to ensure ongoing provision of terrorism cover in the US.

The Directors believe that for those risks not covered by TRIA, attractive premiums continue to be offered generally without the risk of losses aggregating with losses arising from other lines of business. The Group's exposure will be calculated by reference to geographic loss limits. Policy inception dates for this class are spread throughout the year.

Marine hull, total loss and war

The marine hull and total loss classes provide protection to fleet operators for damage to and total loss of ships excluding their cargo. Marine war insurance provides protection to fleet operators for war-related perils.

The Directors expect the Group's underwriting in the marine hull, total loss and war classes to be concentrated on a small number of major fleet owners and they intend to offer ancillary lines to such operators. Whilst marine war business was not directly affected by the catastrophic losses in 2005, the Directors expect favourable conditions in this class.

Marine hull and total loss policy inception dates are spread throughout the year. Marine war insurance policies are written on a periodic basis.

Aviation terrorism third party

The aviation terrorism third party class provides third party liability coverage for damage specifically caused through terrorist acts.

Prior to September 2001 this coverage was provided by the mainstream aviation liability market. However, in response to the World Trade Center loss, reinsurance carriers excluded third party terrorism losses from their protections and direct insurers in turn implemented similar exclusions in their policies. Policy inception dates for this class coincide with those in the mainstream aviation market and a large proportion of policies are therefore written in the last quarter of each year.

Energy onshore

The energy onshore class provides protection to the installations and operations of onshore refineries.

The underwriting team expects to write policies with high deductibles resulting in low attritional loss rates and the targeted client base will be a select group of operators. Policy inception dates for this class are spread throughout the year.

5. Distribution

The Group expects that all of its insurance and reinsurance business will be introduced by brokers and that the principal sources of such business will be the largest five or six international insurance and reinsurance brokers. It also expects that certain smaller specialist intermediaries based in London and the US will introduce business to the Group.

6. Competition

The Group's strategy is to target those classes of retrocession, reinsurance and insurance that are expected to suffer the greatest dislocation in pricing. The Directors do not expect competition from existing participants in the targeted markets to represent a barrier to entry, for the reasons set out elsewhere in this document. The other participants in the classes of business that the Group is targeting will vary according to class and are expected to include insurers and reinsurers based in North America, the UK and Europe.

7. Establishment, corporate organisation and operation

7.1 *Establishing a new insurance and reinsurance business*

The Company has been formed as a new Bermuda exempted company. It is an insurance holding company that owns all of the share capital of the Insurer, which is also newly organised under the laws of Bermuda. On 24 October 2005 the Company submitted an application to the BMA for a Class 4 licence for the Insurer to operate as a Bermuda insurance business writing insurance and reinsurance on a worldwide basis (subject to regulatory requirements). On 10 November 2005 the BMA issued to the Insurer a certificate confirming that the Insurer had been registered as a Class 4 insurer (effective 9 November 2005). Both the Company and the Insurer will maintain their books and records in Bermuda.

The Insurer will conduct its operations and will be managed and controlled from Bermuda and does not currently intend to be licensed as an insurance or reinsurance company in the US or in any other jurisdiction. The Insurer submitted an application on 10 November 2005 to the IID, which, if approved, will enable the Insurer to write surplus lines insurance as a non-admitted insurer in 18 states of the US.

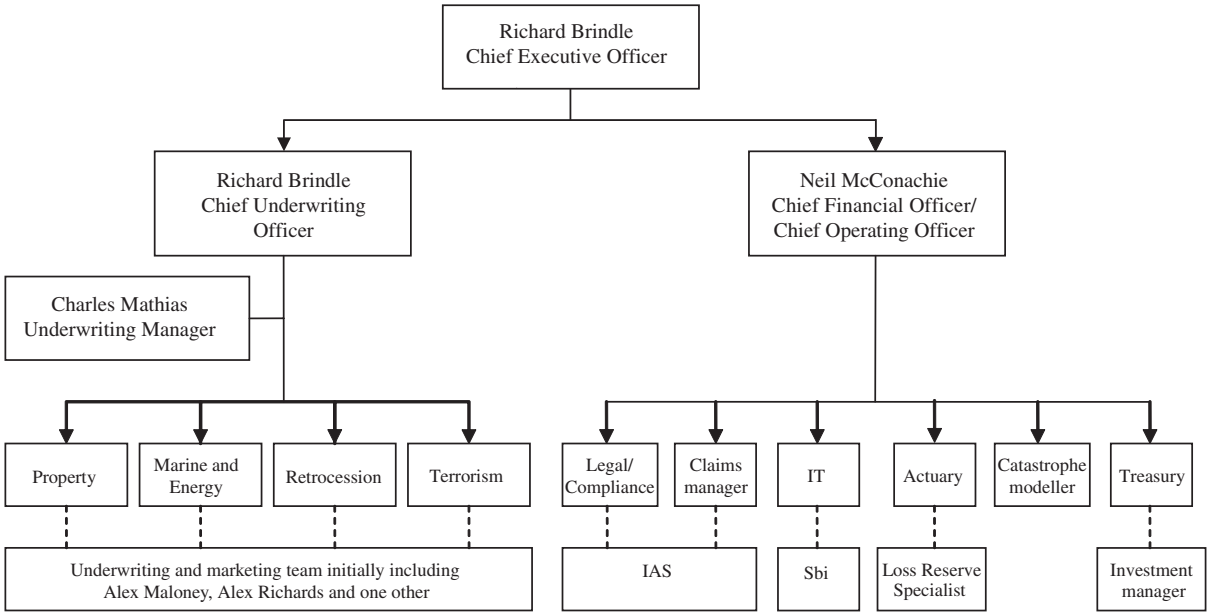
The Company has formed a subsidiary in the UK, Lancashire Marketing, for business introduction and other support services. Lancashire Marketing has been authorised by the FSA as an insurance intermediary, subject to the receipt of certain information, which Lancashire Marketing intends to submit to the FSA immediately following Admission. It is not intended that the Group will, at the outset, effect or carry on any insurance or reinsurance business in the UK.

7.2 *Financial strength rating*

On 1 November 2005, the Company made a submission to A.M. Best seeking an "A-" financial strength rating. On 9 December 2005 the Company was notified by A.M. Best that the Insurer meets the standards of an indicative "A-" financial strength and such rating would be awarded (subject to receipt of necessary funding).

7.3 *Management and operating structure*

The Group anticipates operating with a team of professionals with the requisite skills to write the classes of business the Group intends to target. This team will be made up of an underwriting and operational team together with support staff and the Board. As at the date of this document, the Group has entered into employment contracts with five people. The proposed initial management structure is set out in the diagram below:



7.4 *Outsourcing arrangements*

The Group intends initially to outsource the majority of its back office and processing functions. From the outset the Group will engage professional services providers based in Bermuda to provide support, systems and IT infrastructure, to process and record transactions and to process claims. As the Group grows over the course of the first two years of operations, it is intended that additional staff will be recruited to cover certain of these functions and hence it is expected that a number, but not all, of these functions in due course will be brought in-house.

The Group has entered into a contract with IAS, an experienced, Bermuda based provider of outsourcing solutions to companies similar to members of the Group and the Directors are confident that all the necessary preparations and systems testing can be completed in advance of 1 January 2006. In addition IAS is able to provide office space for the Group's initial members of staff until suitable longer term premises are located. IAS will also be responsible for processing claims, maintaining claims files and performing claims audits of cedants. The Group expects to appoint an in-house claims manager in the first half of 2006.

The Group has entered into a contract to outsource the support of its IT infrastructure and software needs to the Bermuda based company, Sbi. Responsibility for oversight of the outsourced functions is to be retained by the Chief Financial Officer and Chief Operating Officer of the Group. Descriptions of the relevant contracts entered into with IAS and with Sbi are contained in paragraphs 16.7 and 16.8 of Part 9 – Additional Information.

In addition, it is expected that licensing agreements will be entered into with certain catastrophe model providers.

8. Directors and senior management

8.1 ***Directors***

The Bye-laws provide for a Board consisting of different classes of Directors, divided into Class I Directors, Class II Directors and Class III Directors. The Class I Directors are scheduled to serve until the Company's 2009 annual general meeting, the Class II Directors are scheduled to serve until the Company's 2008 annual general meeting and the Class III Directors are scheduled to serve until the Company's 2007 annual general meeting.

After their initial terms of office, each Class I, Class II and Class III Director may be elected for a further three year term of office at the relevant annual general meeting at which their initial term expires.

A list of nominees for proposed new directors prepared by the then incumbent Directors was presented on 6 December 2005 to the Shareholders for consideration and, if thought fit, approval pursuant to Shareholders' unanimous written resolutions. Such Shareholders' unanimous written resolutions were passed on 9 December 2005 such that the Board will at Admission consist of two Executive Directors and five Non-Executive Directors divided into the different classes of Directors as follows:

Class I Directors:	Ralf Oelssner Robert Spass William Spiegel
Class II Directors:	Richard Brindle Barry Volpert
Class III Directors:	Neil McConachie Colin Alexander

Paragraphs 7.1 and 7.2 of Part 9 – Additional Information contain summaries of the terms of employment of the executive Directors and the terms of appointment of the Non-Executive Directors respectively.

8.1.1 ***Executive Directors***

Richard Brindle (age 43) – Chief Executive Officer and Chief Underwriting Officer

Mr Brindle joined Ascot Underwriting Agency in 2001 as a non-executive member of the board, which position he held until his resignation in September 2005. As part of his directorship duties at Ascot, Mr Brindle was responsible for independent underwriting review and was chair of the strategic business development committee. He started his career in 1984 working at Posgate and Denby Managing Agency which was later taken over by Charman Underwriting Agencies. In 1989 Mr Brindle was appointed as Deputy Underwriter of Syndicate 488. In 1991 he was appointed as a director of Charman Underwriting Agencies and acted as main underwriter until 1999. Mr Brindle left Charman Underwriting Agencies when it was sold to ACE in Bermuda.

From 1986 to 1998 Mr Brindle was involved in underwriting for Syndicate 488 as described above (and from 1995, he was also involved in underwriting for Syndicate 2488, a parallel syndicate). For each of the years 1987 to 1998 the combined return on capacity of those syndicates (being based on profit before personal expenses as a percentage of capacity) exceeded the Lloyd's market average. Over the period 1986 to 1998, the average combined annual return on capacity of Syndicates 488 and 2488 was 20.6 per cent. (syndicate accounts), compared with a Lloyd's average of 0.4 per cent. (Lloyd's accounts). Based on the Directors' estimates of a 75 per cent. capacity to capital ratio and their estimates of capital requirements supporting Syndicates 488 and 2488 over that period, the combined return on capacity equates to a 27 per cent. pre-tax return on capital. This paragraph must be read together with the Risk Factors contained in paragraph 1.6 of Part 3 – Risk Factors. The track records of Mr Brindle and Syndicates 488 and 2488 are not indicative of future performance of the Group.

Neil McConachie (age 33) – Chief Financial Officer and Chief Operating Officer

It is anticipated that Mr McConachie will join the Company following Admission at the beginning of February 2006 as Chief Financial Officer and Chief Operating Officer. He is currently Senior Vice President, Treasurer and Chief Accounting Officer of Montpelier. Mr McConachie joined Montpelier at its inception and his role included setting up accounting processes, control systems and arrangements with outsourcers. He has been extensively involved in debt and equity capital markets transactions, including the initial public offering of Montpelier in October 2002, and is responsible for Montpelier's treasury and accounting functions as well as the control functions and outsourcing arrangements. Prior to joining Montpelier, Mr McConachie was employed by PricewaterhouseCoopers in London and Bermuda and at Stockton Reinsurance Limited, a non-traditional reinsurer based in Bermuda. Mr McConachie holds a B.A. in Accounting and Finance from Heriot-Watt University, an M.B.A. with Distinction from Heriot-Watt University and is a member of the Institute of Chartered Accountants of Scotland.

8.1.2 ***Non-Executive Directors***

The appointments of Robert Spass, William Spiegel and Barry Volpert as Non-Executive Directors will be effective upon Admission. In addition, Barry Volpert's appointment as a Non-Executive Director is conditional upon Crestview Partners' subscription for Common Shares pursuant to the Subscription becoming wholly unconditional.

Robert Spass (age 49) – Non-Executive Chairman

Mr Spass is the chairman of the Board and a partner and co-founder of Capital Z, a private equity fund specialising in the financial services industry. Prior to founding Capital Z, Mr Spass was the Managing Partner and co-founder of Insurance Partners, L.P. from 1994 to 1998 and was President and CEO of International Insurance Advisors L.P. from 1990 to 1994. Both Insurance Partners L.P. and International Insurance Advisors L.P. were private equity funds focused on investments in the global insurance and reinsurance industries. Mr Spass currently serves on the board of directors of Universal American Financial Corp., CERES Group, Inc., Endurance Specialty Holdings, Ltd., Aames Financial Corp., USI Holdings Corporation and other privately-held companies.

William Spiegel (age 43) – Non-Executive Director

Mr Spiegel is the President of Cypress, which is a private equity investor. He has been with Cypress since its formation in 1994. Prior to joining Cypress, he was a member of the Merchant Banking Group at Lehman Brothers. Over the course of his career, he has worked on private equity transactions in a wide range of industries. Mr Spiegel currently manages Cypress' efforts in the financial services and healthcare industries. Mr Spiegel is a director of Catlin Group Limited, Financial Guaranty Insurance Co., MedPointe, Inc., Montpelier, and Scottish Re Group Limited. He holds an M.B.A. from the University of Chicago, an M.A. in Economics from the University of Western Ontario, and a B.Sc. in Economics from the London School of Economics.

Colin Alexander (age 50) – Non-Executive Director

Mr Alexander is Senior Vice President of IAS (one of the outsource service providers to the Group) in charge of Captive Accounting in Bermuda. Mr Alexander joined the IAS Park Group in August 1989, prior to which he spent three years with International Risk Management Limited where he managed a number of captive subsidiaries of Fortune 500 companies. Before moving to Bermuda in 1986 Mr Alexander spent five years with chartered accountants, Touche Ross & Company in Manchester, England where he qualified as a chartered accountant in 1981. Mr Alexander also holds a B.A. Honours degree in Accounting and Financial Management from the University of Sheffield.

Ralf Oelssner (age 61) – Non-Executive Director

Mr Oelssner is Vice President Corporate Insurance for Lufthansa German Airlines. In 1979, he became Director, Corporate Insurance, and in 1990 was appointed Managing Director of

Lufthansa's in-house broker. Mr Oelssner became a member of the Executive Board of the captive insurance and reinsurance companies of Lufthansa in 2000. Mr Oelssner served as Chairman of the International Air Transport Association ("IATA") in 1982 and 1983 and as Chairman of the IATA Risk & Insurance Managers' Panel in 2001 and 2002. He is currently Chairman and President of Airline Mutual Insurance, Bermuda and President of the German Risk Managers' Association. He holds an M.A. in Economics from Cologne University.

Barry Volpert (age 46) – Non-Executive Director

Mr Volpert is a co-founder and managing member, chairman and chief executive officer of Crestview LLC which is the general partner of Crestview Partners, L.P. a private equity firm. Prior to founding Crestview Partners, L.P. he was a partner at Goldman, Sachs & Co., where he was most recently head of the Merchant Banking Division in Europe and co-Chief Operating Officer of the Principal Investment Area worldwide. He has a J.D. and M.B.A. with high distinction from Harvard and received an A.B. from Amherst College.

8.2 ***Senior management***

Alex Richards – Senior Retrocession Underwriter

Mr Richards has joined the Group and his primary responsibility will be underwriting retrocession business. In 1993 Mr Richards joined Renaissance Re shortly after its establishment. He was part of the team responsible for the catastrophe book. While at Renaissance Re, he underwrote on behalf of Top Layer Re and Overseas Partners Cat Ltd and modelled and assessed outwards reinsurance purchases. Mr Richards left Renaissance Re in 2001 and has since held positions as Assistant Vice President of Technical Services for Aon Re and Head of Property Reinsurance for RBC Insurance.

Alex Maloney – Marketing Officer and director of Lancashire Marketing

Mr Maloney will have primary responsibility for marketing in the marine and energy areas within Lancashire Marketing. Mr Maloney has market expertise relating to worldwide exploration and production business and has experience of working in London, the US and Bermuda. Mr Maloney has worked at Zurich Global Energy since 1990. He became deputy underwriter while working in the London office between 1992 and 1997 and became involved in large corporate accounts between 1998 and 2000. He worked as manager in the New York office from 2000 until 2002 and, most recently, he has been responsible for production of business written in the London market.

Charles Mathias – Underwriting Manager

Charles Mathias has joined the Group as underwriting manager. He is an insurance executive with 22 years experience in the insurance industry spanning broking, underwriting and management. He has experience of working in London, Latin America and the US and has previously established and managed broking and underwriting entities.

Prior to joining the Company, Mr Mathias worked at the Lloyd's broker RK Harrison Limited since 2003. Before that he was employed by Seascope Insurance Services Limited, another Lloyd's broker where he was responsible for a non-marine portfolio. He has also founded two Texas underwriting managers; RISC International LLC, a US underwriting manager where from 1995 to 1999 he was President and was responsible for all aspects of company formation and policy and IRM, Inc., where he was Senior Vice President from 1991 to 1995.

9. Initial Founders

Capital Z is a private equity investor focused exclusively on the financial services industry in the US and Europe. Since 1990 Capital Z and its predecessor funds have invested in excess of US$2.2 billion in over 50 transactions. Capital Z's insurance and reinsurance investments have included Tarquin plc, a Lloyd's vehicle previously managed by John Charman and Richard Brindle, and the sponsorships of Endurance Specialty Holdings and Catlin Group Limited. Capital Z's predecessor fund, Insurance Partners, invested in Tarquin plc.

Crestview Partners is a private equity fund established in 2004 to make investments with a primarily contrarian orientation. Crestview's investment targets include companies or industries in the US and Europe that are especially complex.

Cypress is a private equity investor whose objective is to achieve long-term capital appreciation through growth-oriented, privately negotiated equity investments. Since 1989 the Cypress principals have invested over US$4 billion of equity in 32 companies representing over US$22 billion of transaction value. Cypress has a dedicated investment team focusing on the financial services industry and has invested over US$900 million in this sector since 1997. Cypress's financial services investments consist of two property and casualty insurance companies, Montpelier Re Holdings Limited and Catlin Group Limited, a leasing company, Williams Scotsman Inc., a financial guaranty insurance company, FGIC Corporation, and a life reinsurer, Scottish Re Group Limited.

Moore Capital is a US-based investment management firm headquartered in New York. Moore Capital, together with its predecessor firm, has been in the investment management business since 1989.

Och-Ziff is a global institutional asset management firm managing assets in excess of US$14 billion with offices in New York, London, Hong Kong and Bangalore, India. Och-Ziff has participated alongside other strategic investors in several multi-billion dollar transactions involving the equity and debt capital funding of acquisitions and strategic investments.

SAB is a New York based hedge fund manager that currently manages approximately US$1.5 billion in assets with 14 investment professionals and 26 employees. SAB was founded by Scott Bommer (Stanford B.A., Harvard M.B.A.) and commenced operations in January 1999. The firm utilises a private market approach in pursuing what are typically value-oriented investment opportunities.

The Founder Shareholders have invested in the Original Subscription and the Initial Founders will be making the investment in the Subscription as described in paragraph 16.3 of Part 9 – Additional Information.

10. Dividends

The Directors intend to manage capital actively to ensure that the Group has an appropriate level and mix of capital. The Directors intend to maintain a strong balance sheet at all times to ensure an adequate financial strength rating from A.M. Best and to match available underwriting opportunities. The Group will engage in an active and ongoing dialogue with A.M. Best (and other credit rating agencies as appropriate) and will seek to maintain at least an "A-" financial strength rating from A.M. Best. Subject to the Group being satisfied that to do so will not prejudice the Insurer's ability to maintain at least an A.M. Best "A-" financial strength rating, the Directors intend to focus on total shareholder return and intend to return capital to Shareholders where appropriate, including by way of dividends. It is envisaged that any dividends payable may be paid on a quarterly, semi-annual or annual basis as declared by the Directors at the applicable time.

Potential investors should refer to Part 3 – Risk Factors which lists certain risks which should be taken into account in considering whether or not to acquire Common Shares. In particular, potential investors should be aware that the insurance and reinsurance industries can be highly cyclical and volatile and subject to exposure to significant unpredictable losses. Accordingly, there can be no assurance that, in any given year, profits will be available for distribution.

All dividends will be subject to the future financial performance of the Group including results of operations and cash flows, the Group's financial position and capital requirements, rating agency considerations, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors the Directors deem relevant in their discretion, which will be taken into account at the time.

11. Investment strategy

It is intended that the net proceeds of the Placing and Debt Financing will initially be deposited in "AAA" rated institutional liquidity funds. Subsequently the Group will appoint one or more investment managers to manage the Group's investment assets. The investment managers will act under the instructions of the Chief Financial Officer.

As is typical with portfolios of this nature, the Group's investment policy will be designed to protect the value of invested assets while providing sufficient liquidity for the prompt payment of claims. The Group's investment strategy will be to minimise the risk of capital loss and to maximise the total return on its invested assets over the longer term.

The Group's investment committee will establish the investment guidelines and supervise investment activity. The investment committee will regularly monitor the overall investment results, review compliance with its investment objectives and guidelines, and ultimately report the overall investment results to the Board. These guidelines will specify minimum criteria on the overall credit quality and liquidity characteristics of the portfolio. They will include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities or investing in certain industries.

12. Risk management

12.1 *Underwriting controls*

The Group will establish strict underwriting criteria and limits. Any risks that fall outside of these criteria and limits will require the approval of the Chief Underwriting Officer. These criteria and limits will be reviewed from time to time by the Group's underwriting committee, which will meet quarterly.

In order to ensure compliance with anticipated probable maximum losses, the Management Team will constantly monitor exposures by class and territory using selected proprietary catastrophe loss models and aggregate monitoring tools. This will form part of the standard quarterly reporting to the underwriting committee.

The Group's overriding objective will be to underwrite to specific disciplines as set out by the Chief Underwriting Officer with the aim of adhering to the following principles:

- to set the attachment point of business written on an excess of loss basis for the most part above the level of attritional losses, the rationale being to cover only low frequency, high severity losses;
- to limit the scope of coverage on regular property classes to "traditional perils" and exclude unquantifiable perils such as cyber risks;
- to be prepared to entertain difficult risks such as terrorism, but only on a basis where exposures are carefully controlled and an appropriate price is charged;
- to require clients on retrocession business and certain catastrophe covers to carry an unreinsured co-insurance retention;
- to exclude natural catastrophe exposure in direct property classes where correlation with other classes of business could occur;
- to seek a high level of transparency of underwriting data in order to assist with accurate monitoring; and
- to use risk assessment models to assist in the underwriting process and in the quantification of the Group's aggregate exposures.

A detailed underwriting procedures manual sets out, among other matters, authority and jurisdiction limits on underwriting.

12.2 *Compliance*

As the Group attaches great importance to regulatory compliance, it has created the position of general counsel to establish and keep under review compliance procedures and control systems. Compliance issues will be integral to decision making processes at all levels within the Group.

The objectives will initially be to:

- provide an effective, efficient and properly resourced compliance function;
- build a proactive compliance culture;
- ensure that controls are in place commensurate with business requirements;
- obtain early warning of problems and control failures; and
- ensure that sufficient, timely information is in place to demonstrate informed decision making.

12.3 *Claims and reserving*

The Board believes that an important success factor for the business is to adopt a conservative and prudent approach to claims and reserving techniques. The following key controls will operate to achieve this aim:

- the claims manager will establish a clear segregation of duties from the underwriting team and will report directly to the Chief Financial Officer;
- the Chief Financial Officer will set the authority of all claims personnel, both internal and external;
- all claims will be reserved at gross level;
- full actuarial modelling will be used to evaluate ultimate claims; and
- an independent actuarial firm will be appointed to review reserves on an annual basis.

12.4 *Reinsurance*

The Group's underwriting philosophy is based on underwriting risks which it believes are attractively priced in a dislocated market. Therefore, the approach to buying reinsurance is purely to protect the Group's ability to continue to trade rather than trying to arbitrage the risk pricing.

The Group envisages buying a whole account cover to protect its balance sheet against major loss events. The strategy in structuring the whole account protection will be to limit the net effect to the Group and to aim to protect its targeted "A-" financial strength rating in the event of a major loss.

A policy of this type is expected to reduce earnings volatility for a first major loss and to provide improvements to results over a three year term in the event of more than one major loss.

13. The Placing and use of proceeds

For details of the Placing please see Part 4 – Details of the Placing.

The Placing is intended, together with the Debt Financing, to provide the Group with its capital requirements for commencing its insurance operations and for working capital purposes.

14. Debt Financing

In addition to the equity capital raised through the Placing, the Company also intends to raise approximately US$121.9 million (net of expenses) through the issue of subordinated notes and trust preferred securities. The Company has entered into note purchase agreements further described in paragraph 16.5 of Part 9 – Additional Information which will govern the terms upon which the Company will issue the Notes. The issue of the Notes is expected to be effective as of the date of Admission.

Furthermore, the Company intends to put in place the following financing arrangements:

- a senior revolving credit facility of up to US$75 million; and
- a collateralised letter of credit facility of up to US$350 million.

The Directors expect that these financing arrangements will be entered into at market terms and conditions as soon as is practicable after the Admission Date.

15. Lock-Up Agreements

The Directors, applicable employees and all other related parties (as such terms are defined in the AIM Rules) who, in each case, hold Common Shares have (with effect from Admission and subject to certain limited exceptions) undertaken not to dispose of any interests in any of their Common Shares for a period of 12 months following Admission. The Subscribers (other than those who have entered into lock-up agreements as described in the previous sentence) have also undertaken not to dispose of any interests in any of their Common Shares for a period of six months following Admission (without the prior written consent of Merrill Lynch) subject to certain limited exceptions. In addition, under the Placing Agreement, the Company has undertaken not to issue any further Common Shares for a period of 12 months from Admission (without the prior written consent of Merrill Lynch) subject to certain exceptions. Further details of the Lock-Up Agreements are set out in paragraph 16.2 of Part 9 – Additional Information.

16. Long Term Incentive Plan

It is intended that the Company will, effective as at Admission, establish and operate a Long Term Incentive Plan on the terms set out and referred to in paragraph 8 of Part 9 – Additional Information. Such Long Term Incentive Plan shall provide for the issuance of, at the discretion of the remuneration committee of the Board, Options to purchase up to 5 per cent. of the common share capital of the Company in issue at grant of the Options. It is not currently expected that any Options will be outstanding at Admission.

All such Options shall have an exercise price per Common Share equal to the market value per Common Share as determined by the remuneration committee of the Board as of the date of grant and shall vest in 25 per cent. instalments on the first through fourth anniversary dates of the date of grant. The award of all such Options shall be made at such time and in such amounts as determined by the remuneration committee of the Board in its sole discretion.

17. Management bonus plans

17.1 *Basic bonus plan*

It is intended that the Company will, with effect from Admission, establish and operate a basic management bonus plan which shall provide, in the case of the bonus paid in respect of the year ending 31 December 2006 (the "First Year"), a minimum bonus of 75 per cent. of base salary for each of the Chief Executive Officer and Chief Financial Officer, and 50 per cent. of base salary for eligible underwriting or marketing team members.

The maximum bonus payable under this basic bonus plan in respect of the First Year for the Chief Executive Officer is 250 per cent. of base salary and other limits apply to other eligible team members. In addition, the amounts of annual cash bonuses in the aggregate under the basic bonus plan and the additional bonus plan which may be paid to any individual will be subject to a maximum amount described in paragraph 17.2 below.

In years subsequent to the First Year, there will be no guaranteed minimum bonus under the basic bonus plan but the maximum bonus percentages set out above will continue to apply.

The actual amount of bonus paid out by the Company in each individual case will be determined by the Company's remuneration committee (upon the recommendation of the Chief Executive Officer in respect of his colleagues) based on corporate performance. The actual amount of bonus paid out by the Company to the Chief Executive Officer will be determined by the Company's remuneration committee. The basic bonus will be paid out at the time of the publication of audited financial statements of the Group in respect of the year to which the bonus relates.

17.2 *Additional bonus plan*

It is intended that the Company will, with effect from Admission, establish and operate a separate management additional bonus plan under which formula-based additional bonuses will be paid in addition to the basic bonuses described in paragraph 17.1 above. The amounts payable under the additional bonus plan will be based on a formula which reflects both absolute and relative returns in any one year, with each such performance condition/threshold met contributing 50 per cent. of the possible sum paid to the individual.

Under the additional bonus plan, one half of the bonus will be payable under an absolute return pool that will comprise 2.5 per cent. of the profits generated to the extent the Group's return on equity for that year exceeds the Group's return on equity for that year as projected at Admission. The other one half of the additional bonus will be payable under a relative return pool that will comprise 2.5 per cent. of the profits generated to the extent the Group's return on equity exceeds the average of a peer group of comparable insurance and reinsurance companies.

The allocation of any amounts in the pools payable under the additional bonus plan will be, subject to the aggregate maximum limits below, up to 35 per cent. for the Chief Executive Officer, and such lesser and appropriate amounts from time to time for eligible underwriting and marketing team members.

In the event that amounts are available because the Group's performance criteria are met, one half of an individual's actual entitlement to the additional bonuses in any year will be paid out at the time of the publication of audited financial statements of the Group for the financial year to which that bonus relates and one quarter of such entitlement will be paid out on each of the next two following anniversaries of such publication date.

The maximum amount payable in the aggregate under the combination of the basic bonus plan and the additional bonus plan shall be no more than 500 per cent. of base salary in the case of the Chief Executive Officer, and such lesser and appropriate percentage amount of base salary in the case of a limited number of eligible team members based on each individual's base salary.

Any money in the annual pools that could have been allocated under the additional bonus plan but which is not allocated because all eligible team members have reached the maximum amounts set out above will not be paid out and will remain the Company's funds.

18. Warrants

Warrants to purchase Common Shares, representing 5 per cent. of the Fully Diluted Common Share Capital will, subject to Admission, be either issued to members of the Management Team or other employees of the Group at Admission or reserved for later issuance to employees of the Group. Richard Brindle will be entitled to 60 per cent. of that 5 per cent. Further performance related Warrants to purchase up to 3 per cent. of the Fully Diluted Common Share Capital will, subject to Admission, be either issued to members of the Management Team or other employees of the Group at Admission or reserved for later issuance to employees of the Group. Richard Brindle will be entitled to 40 per cent. of that 3 per cent.

The Initial Founders will receive, effective as at Admission, Warrants to purchase Common Shares, representing 7 per cent. of the Fully Diluted Common Share Capital.

Benfield will receive, effective as at Admission, Warrants to purchase Common Shares, representing 3 per cent. of the Fully Diluted Common Share Capital.

Summaries of the terms of the Warrants are set out in Part 8 – Summary of the Warrants. As referred to in Part 8 – Summary of the Warrants, the exercise price and number of Common Shares relating to such Warrants issued to the Management Team, the Initial Founders and Benfield will be subject to adjustment in respect of dilution events, including the payment by the Company of cash or scrip dividends, any amalgamation, reorganisation, reclassification, consolidation, merger or sale of all or substantially all the Company's assets and other dilutive events.

19. Corporate governance

The Company intends to comply with the Combined Code to the appropriate extent, taking into account the Company's size and the nature of its business, as soon as is practicable. Currently, the Company complies with the Combined Code other than as set forth below and as otherwise disclosed in this document.

The Combined Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors), with independent non-executive directors comprising at least one half of the board (excluding the Chairman). On Admission, the Company will have one independent Director (being Ralf Oelssner). The Directors will not be submitted for re-election at the first annual general meeting of the Company and so will not comply with the Combined Code in this regard.

The Company has established underwriting, audit, remuneration, nomination and investment committees. All proposals on appointment to these committees are preliminary and subject to Shareholders approving their appointment as Directors.

The underwriting committee consists of Richard Brindle (as chairman), Charles Mathias and Alex Richards. It will meet quarterly and oversee the development and adherence to underwriting guidelines and will monitor procedures relating to exceptions thereto. It will also be responsible for formulating underwriting strategy.

The audit committee consists of Robert Spass (as chairman), Ralf Oelssner and William Spiegel. It will meet at least twice a year and be responsible for ensuring that the financial performance and position of the Group is properly reported on and monitored. It will meet the auditors and review their reports relating to accounts and internal controls. It will also review quarterly any transactions between the Group, the Initial Founders, any of their respective associates or affiliates and certain other third parties.

The remuneration committee consists of William Spiegel (as chairman), Ralf Oelssner and Colin Alexander. It will meet at least twice a year and will make recommendations to the Board on, amongst other things, matters relating to the remuneration and terms of employment (including targets for performance related bonus or other incentive schemes) of the Executive Directors of the Company and on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time.

The nomination committee consists of Robert Spass (as chairman), Richard Brindle and William Spiegel. It will meet at least twice a year and will make recommendations to the Board on all board appointments, including the selection of Non-Executive Directors.

As only one Director is regarded for the purposes of the Combined Code as being independent, the audit committee and remuneration committee will not initially consist entirely of independent Non-Executive Directors and the nomination committee will not initially consist of a majority of independent Non-Executive Directors for the purposes of the Combined Code.

The investment committee is intended to consist of William Spiegel (as chairman), Neil McConachie and Colin Alexander and will make recommendations to the Board regarding the investment policy of the Group, including the establishment of investment strategies and monitoring of performance and compliance with those strategies.

In light of his relationship with Capital Z, the Chairman is not regarded for the purposes of the Combined Code as being independent. The Directors are aware that the composition of the Board is not in compliance with the Combined Code. They consider, however, that the composition of the Board is appropriate for this stage of the Company's development.

The Long Term Incentive Plan does not contain certain provisions which are included in the current guidelines on executive remuneration published by the Association of British Insurers or the Combined Code. Further details are contained in paragraph 8.4 of Part 9 – Additional Information. In addition, the Warrants to be granted to the Management Team do not contain certain provisions which are included in the current guidelines on executive remuneration established by the Association of British Insurers or the Combined Code. Further details are contained in Part 8 – Summary of the Warrants – Introduction.

The Company will take all reasonable steps to ensure compliance by the Directors and any employees with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose.

Bermuda does not have a corporate governance code that applies to the Company.

20. Voting rights

Except as provided below, the voting rights of the Common Shares are described in paragraph 4 of Part 9 – Additional Information. The attention of US Persons (as defined in paragraph 10.3.2 of Part 9 – Additional Information) is drawn to the fact that if, and so long as, the "controlled shares" of any US Person would otherwise represent more than 9.5 per cent. of the total combined voting power of all of the Company's issued and outstanding shares entitled to vote, then the votes conferred by the controlled shares owned by such person will be limited, in the aggregate, to a voting power of 9.5 per cent., as set forth in the Bye-laws of the Company. In addition, the Board may limit a Shareholder's voting rights where it deems it necessary to do so to (i) avoid the existence of any 9.5 per cent. US Shareholder (as defined in the Bye-laws); and (ii) avoid certain adverse tax, legal or regulatory consequences. See paragraph 4.5 of Part 9 – Additional Information, for a description of such provisions.

21. Limitations on transfer and ownership

The Directors are required to decline to register a transfer of Common Shares if they believe that the result of such transfer may result in a non-*de minimis* adverse tax, legal or regulatory consequence to the Company,

the Insurer or any direct or indirect holder of Common Shares or its affiliates. Similarly, the Company is restricted from issuing or repurchasing Common Shares if the Board determines such issuance or repurchase may result in a non-*de minimis* adverse tax, legal or regulatory consequence to the Company, the Insurer or any direct or indirect holder of Common Shares or its affiliates. See paragraphs 4.4 and 4.7 of Part 9 – Additional Information for a description of such provisions.

22. Certain regulatory considerations

The Insurer will be subject to Bermuda regulation under the Insurance Act and the regulations thereunder and be required to maintain a certain minimum level of liquid assets and capital and surplus. It is presently contemplated that neither the Company nor the Insurer will be admitted to do business in any jurisdiction in the US. It is presently intended that US business will be generated through intermediaries in compliance with the surplus lines law or in accordance with applicable statutory exemptions for non-admitted insurers and reinsurers. Accordingly, based on present intentions, neither the Company nor the Insurer expects to be subject to full licensing, solvency and market conduct regulation in the US but by virtue of the Insurer's projected status as an eligible or approved surplus lines insurer in various states in the US the Company will be required to comply with certain US laws and regulations. With respect to its reinsurance activities, based on present plans, neither the Company nor the Insurer expects to be subject to regulation in any state in the US. See Part 5 – Regulation and Monitoring for a further explanation of the regulatory environment in which the Group will operate.

23. Controller provisions

Prospective Shareholders in the Company should note that if they, either alone or with their associates, subscribe for or acquire 20 per cent. or more of the Company's issued common share capital or are able to exercise or control the exercise of 20 per cent. or more of the voting power in the Company, they will be deemed to become a controller of Lancashire Marketing under FSMA and must obtain prior approval from the FSA. In order to obtain such approval, the prospective Shareholder will be required to provide information to the FSA and may be required to give it certain undertakings. Further, a Shareholder who acquires voting power of 20 per cent. or more and is affected by the operation of provisions in the Bye-laws concerning the restriction on US shareholders to no more than 9.5 per cent. voting power (see paragraph 4.5 of Part 9 – Additional Information) will be required to notify the FSA within 14 days of first becoming aware that it has acquired such voting power.

If a Shareholder fails to obtain such approval or fails to notify the FSA of having acquired control, the FSA may impose restrictions on such Shareholder's Common Shares, such as a restriction on the payment of dividends or the exercise of voting rights, and/or seek a court order for the sale of such shares. Furthermore, such Shareholder will be guilty of a criminal offence under section 191 of FSMA.

24. Taxation

Information regarding UK taxation with regard to the Placing is set out in paragraph 10.1 of Part 9 – Additional Information. If a potential investor is in any doubt as to its tax position, such investor should contact its professional adviser immediately. The Group currently intends to operate in such a manner that, for tax purposes, it will not be considered to have, other than through Lancashire Marketing, a taxable presence in the UK.

Information regarding US taxation with regard to the Placing is set out in paragraph 10.3 of Part 9 – Additional Information. The Group currently intends to operate in such a manner that, for US federal income tax purposes, it will not be considered to be engaged in a US trade or business. Premium income attributable to insurance or reinsurance of US risks generally will be subject to an excise tax.

Bermuda currently does not impose taxes on the income or profit of companies such as the Company and the Insurer.

25. Further information

Potential investors' attention is drawn to the additional information set out in Part 3 – Risk Factors to Part 10 – Depositary Interests: terms of Deed Poll.

PART 3

RISK FACTORS

Potential investors should carefully consider the risks described below, in the light of the information in this document and their personal circumstances, before making any decision to invest in the Company. The risk factors summarised below are not intended to be exhaustive and are not intended to be presented in any assumed order of priority. If any of the risks described should actually occur, a significant or material adverse effect on the Group's business, results of operations and/or financial condition could occur and the Company could be materially affected. In such circumstances, the price of the Common Shares may fall and potential investors could lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have a material adverse effect on the Group.

References in the following Risk Factors to "insurance" shall (save where the context otherwise requires) be deemed to include reinsurance.

1. Risks relating to the Group and its industry

1.1 *Assumptions in the financial and stochastic models may not be accurate*

The projections contained in Part 7 – Illustrative Summary Consolidated Financial Projections of the Group and in paragraph 4 of Part 2 – Information on the Group are based on information projected by the Company's financial and stochastic models. Many of the assumptions used in these models are based on estimates by the Directors that have not been verified or audited by third parties and which, in certain cases, by their nature are not capable of verification or audit. The Illustrative Projections are solely for illustrative purposes and the Group's underwriting will be carried out on a dynamic basis responding to changes in market conditions and opportunities. It is, therefore, highly unlikely that the composition of the Group's underwriting portfolio will correspond to the Illustrative Projections. Accordingly, there can be no assurance that the actual results will be similar to the Illustrative Projections or that the Company will achieve a net profit.

Due to the impact of hurricanes Katrina, Rita and Wilma on the insurance industry and the consequent market dislocation in certain classes of insurance and reinsurance, projections are subject to additional uncertainty. There is a divergence of views among market participants concerning the outlook for the industry. The assumptions adopted by the Directors in the financial and stochastic models may differ in material respects from those of other industry participants or commentators.

The Directors' estimates of future losses incurred in relation to insurance contracts are based on reviews of historical data and their own experience and judgement. These estimates are based on long-term trends of insurance losses and, in some cases, the Directors' estimates of appropriate prudence margins. Their estimates may fail to take account of short- or long-term cyclical or other trends, or of potential correlations between loss events affecting different classes of business. Investors should refer to the principal bases and assumptions set out in Part 7 – Illustrative Summary Consolidated Financial Projections of the Group and also Forward-looking statements on page 3 of this document.

1.2 *Limited operating history of the Group*

The Group is comprised of newly incorporated commercial entities which have not yet commenced business and have no history of operations or financial history. Although the initial capital, premiums and investment earnings of the Group will provide a pool of resources which the Directors expect to be sufficient to cover loss payments, the ultimate claims experience of the Group cannot be predicted with any certainty. Insurance and reinsurance risks assumed by the Group may leave it exposed to claims in excess of premiums and investment income, resulting in a demand on its capital base, and there can be no assurance that losses exceeding its total resources will not occur. While the Group's expected premium levels and expected terms of insurance and reinsurance contracts are intended to yield favourable results, there can be no assurance that the Group will be successful.

Companies in their initial stages of development, such as those which comprise the Group, present substantial business and financial risks and may suffer significant losses. The Group must successfully develop business relationships, establish operating procedures, hire staff, install information management and other systems, establish facilities, obtain licences and procure necessary customary insurance, as well as take other steps necessary to conduct its intended business activities. It is possible that the Group may not be successful in implementing its business plan or in completing the development of the infrastructure necessary to run its business.

1.3 *Control systems may prove inadequate*

The Directors believe that the Group will on Admission have appropriate underwriting, claims, reserving and financial and management controls in place. However, some of the systems and processes are in the process of implementation and/or further development and, therefore, remain untested. Any disruption in the development of these systems or processes, or issues that emerge in relation to their implementation, may result in the Group incurring additional costs and may negatively impact the Group's ability to execute its strategy and to analyse in a timely and efficient manner its financial and other business information, and may ultimately have a material adverse effect on the Group.

In the event that any employee or Director of a member of the Group undertakes unauthorised underwriting activities on behalf of the Group beyond the contemplated scope of the Group's business, this would change the anticipated risk profile of the Group and could have a material adverse effect on the Group.

Whilst the Directors believe the Group will, on Admission, have in place appropriate protections against fraud, theft, misuse of funds, money laundering or other unauthorised or criminal activities, such systems may prove inadequate. In the event that the Group is subject to such activities and such systems prove inadequate this may lead to a material adverse effect on the Group.

1.4 *The Insurer may not obtain or maintain its desired financial strength rating*

Third-party credit rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria established by the rating agencies. The claims-paying ability ratings assigned by rating agencies to insurance and reinsurance companies represent independent opinions of financial strength and ability to meet policyholder or other obligations, but are not directed toward the protection of investors. Insureds and intermediaries use these ratings as one measure by which to assess the financial strength and quality of insurers and reinsurers. These ratings are often a key factor in the decision by an insured or an intermediary on whether to place business with a particular insurance or reinsurance provider. The Company has applied to A.M. Best and A.M. Best has indicated that the Insurer meets the standards of an indicative "A-" financial strength rating and that (subject to receipt of necessary funding) the Insurer will be granted an "A-" financial strength rating as a new business. Many insureds, cedants and intermediaries maintain a listing of acceptable insurers or reinsurers, generally based upon credit ratings, and an "A-" financial strength rating is the minimum rating normally acceptable for these insureds, cedants and intermediaries to include a particular insurer or reinsurer on such a list. Should A.M. Best be unable or unwilling for any reason to grant the initial "A-" financial strength rating to the Insurer after the Group has demonstrated to A.M. Best the receipt of necessary funds, it is likely that the Common Shares would be suspended and the Company may seek to return the net proceeds of the Placing to Shareholders.

The Group's performance will be monitored by A.M. Best on a regular basis and any material deviation from the Group's business plan could lead to a ratings downgrade or placing on a negative credit watch. A ratings downgrade or placing of the Insurer on negative credit watch by A.M. Best or another rating agency could have an adverse effect on the Group's ability to write business generally and/or the Group's ability to write in certain classes of business. Failure to qualify for inclusion on lists of acceptable insurers or reinsurers would seriously reduce the volumes of business presented to the Group's underwriters. A downgrade or placing of the Insurer on negative credit watch could, therefore, result in a substantial loss of business as insureds, cedants and brokers that place business with the Group might move to other insurers and reinsurers with higher credit ratings or insist on less favourable

terms as a condition of continuing to do business with the Group. A credit rating downgrade might also give rise to a right of termination or amendment to any credit facilities the Company may have or reinsurance contracts placed with the Group or under which the Group is reinsured.

Certain market participants have indicated that certain third party credit rating agencies have increased (and may further increase) the levels of capital they require an insurer or reinsurer to hold in order to maintain a certain credit rating. Such changes could result in the Group having to raise additional capital in order to maintain its credit rating, or, should the Group not raise such additional capital, could result in a downgrade of its credit rating, and could have a material adverse effect on the Group.

1.5 *Dependence on key personnel*

The Insurer's underwriting will be carried out by a small underwriting team. The Company has identified further potential personnel. The Group's future success is substantially dependent on the recruitment and continuing contributions of its Directors, senior management, underwriters and other key personnel and its ability to continue to attract, motivate and retain the services of suitable personnel. The loss (whether temporary or permanent) of the services of any of the Company's Directors, senior management, underwriters or other key personnel, particularly in the initial stages of the Group's existence, could have a material adverse effect on the Group's business. While the Group has entered into and may enter into employment contracts or letters of appointment with such key personnel, the retention of their services cannot be guaranteed. In addition, the Initial Founders have not made any commitment to maintain representation on the Board or to provide any assistance beyond the fiduciary duties of the Board members.

The Company's proposed location in Bermuda may be an impediment to attracting and retaining experienced personnel. Under Bermuda law, non-Bermudians (other than any spouses of Bermudians or holders of permanent residency certificates) may not engage in any gainful occupation in Bermuda without the specific permission of the Bermuda government. Such permission may be granted or extended upon an employer showing that, after proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the advertised position. The Bermuda government has a policy that places a six year term limit on individuals with work permits, subject to certain exemptions for key employees and persons holding positions recognised as key occupations where the particular business has a significant physical presence in Bermuda. A list of categories recognised as key occupations has recently been issued. Businesses may request that holders of posts in such categories be exempted from the term limits on work permits. None of the Company's senior management team expected to be based in Bermuda are expected to be Bermudian, and all such persons are expected to be working in Bermuda under work permits with expiry dates. While the Directors are not currently aware of any reasons why the work permits for these officers and employees might not be issued or renewed, there can be no assurance that these work permits will be issued or, after issue, renewed as required by the Company.

1.6 *The track records of Richard Brindle and Syndicates 488 and 2488 are not indicative of future performance*

This document contains details of Richard Brindle's (the Company's Chief Executive Officer and Chief Underwriting Officer) previous experience and underwriting track record. In particular it contains details of the historical performance of Syndicates 488 and 2488 managed by Charman Underwriting Agencies during the period when Richard Brindle was underwriting their business. It is likely that market conditions prevailing now will differ from those prevailing in the past and the business underwritten by the Group will not correspond to the underwriting by such syndicates. Information on such previous performance is not intended as, and under no circumstance should be construed as, a prediction of the Group's likely performance or the return that might be realised on an investment in the Company. There can be no assurance that Richard Brindle will be able to deliver the same level of performance in the future. This information is included solely as an indication of, and to provide a basis for evaluation of, the depth of Richard Brindle's experience and the extent of his qualifications.

1.7 *Competition within the industry may make profitable pricing difficult*

The insurance and reinsurance industry is highly competitive. The Group may find itself in competition with other insurers and reinsurers that may have an established position in the market and/or greater financial, marketing and management resources available to them. Competition in the types of business that the Group may underwrite is based on many factors, including premiums charged and other terms and conditions agreed, services provided, financial strength ratings assigned by third-party credit rating agencies, speed of claims payment, reputation, perceived financial strength and experience in the line of business to be written. Increased competition could result in fewer submissions, lower premium rates or less favourable policy terms and conditions, which could adversely affect the Group's growth and profitability. Premium levels may be adversely affected by increases in insurance industry capacity, increases in reinsurance capacity, reduction of prices in response to favourable loss experience, the pricing of underlying direct coverages and other factors, any of which could develop in a relatively short period of time. The Company cannot predict the extent to which competition from new companies or existing competitors raising capital could mitigate anticipated increases of premium rates following hurricanes Katrina, Rita and Wilma. There is a divergence of views among market participants on the likely duration and extent of anticipated rate improvements. Whilst the Directors anticipate that rates will reduce and thus become less attractive from 2008, there can be no assurance that this will not occur sooner.

Other insurers and non-insurance companies that may have greater experience or financial resources may offer alternative risk transfer products that compete with the insurance products that may be offered by the Group. The extent to which such alternative risk transfer products may affect the demand for the Group's products or the risks that may be available for the Group to consider underwriting is unpredictable.

1.8 *The Group may fail to obtain new insurance or reinsurance business*

The Group may fail to obtain new insurance or reinsurance business at the desired rates. There can be no assurance that business will be available to the Group on terms or at a pricing that it considers to be attractive, nor can there be any assurance that if such terms or pricing exist initially, they will continue.

1.9 *The failure of any of the loss limitation methods employed by the Group could have a material adverse effect on the Group's financial condition or its results of operations*

The Group will seek to limit its exposure to insurance and reinsurance losses through a number of loss limitation methods including internal risk management and security procedures as well as through the purchase of outwards reinsurance protection. The Directors intend that the Group's underwriting processes will include the setting and monitoring of underwriting guidelines and the monitoring and control of risks written. Underwriting is a matter of judgement involving important assumptions about matters that are inherently unpredictable and beyond the Group's control and for which historical experience and probability analysis may not provide sufficient guidance.

Various provisions of the policies which the Directors anticipate will be written by the Insurer, such as limitations or exclusions from coverage or choice of forum, may not be enforceable in the manner the Directors intend due to, among other things, disputes relating to coverage and choice of legal forum.

Notwithstanding the risk mitigation and underwriting controls employed, one or more catastrophic or other loss events or a greater frequency of losses than expected could result in claims that substantially exceed the Group's expectations, which could have a material adverse effect on its financial condition or results of operations, possibly to the extent of eliminating the Group's shareholders' funds and statutory surplus.

There can be no assurance that outwards reinsurance or retrocession will be available to the Insurer in the future, or that it will be available on terms or at a cost deemed by the Insurer to be appropriate or acceptable (including as to its accounting and regulatory treatment) or from entities with satisfactory credit-worthiness.

1.10 *Cyclicality of insurance business may produce significant fluctuations*

The insurance and reinsurance business has historically been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, general economic and social conditions and other factors. This cyclicality has produced periods characterised by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favourable premium levels. In addition, increases in the frequency and severity of losses suffered by insurers can significantly affect these cycles. The Group can be expected to suffer the effects of such cyclicality. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate.

1.11 *Underwriting of insurance risks can be volatile and losses may be incurred*

The underwriting of insurance risks is, by its nature, a high risk business. Earnings can be volatile and losses may be incurred which would have the effect of reducing shareholders' funds. The Directors intend that the Group's underwriting will be focused on low frequency, high severity losses worldwide. The Group's results will be subject to unpredictable and potentially multiple losses.

The results of participants in the insurance industry worldwide vary widely as do the results of insurers operating within the Bermudian insurance market. Even if the Bermudian insurance market makes an overall profit, some individual insurers or lines of business may incur losses. The past results of the market are an historical record and may not necessarily be a reliable guide to future prospects. Previously profitable business may subsequently become unprofitable; the nature of business written may change; reserves created against future claims may prove to be inadequate; an insurer's reinsurance programme may be insufficient and/or its reinsurers may fail.

It is inherent in the nature of the underwriting business that it is difficult to forecast short-term trends or returns in a single year. If its underwriters fail to assess accurately the risks underwritten or if events or circumstances cause their risk assessment to be incorrect, the Group may not charge appropriate premiums and this could have a material adverse effect on the results of its operations.

A single event could result in significant losses across multiple classes of business.

1.12 *If actual claims exceed the Group's claim reserves, the financial condition and results of operations of the Group could be significantly adversely affected*

The Group's financial condition and results of operations will be affected by its ability to assess accurately the potential losses associated with the risks that it insures and reinsures. To the extent actual claims exceed the Group's expectations, it will be required to recognise immediately the less favourable experience. This could cause a material increase in the Group's liabilities and a reduction in its profitability, including an operating loss and reduction of capital.

The Insurer will be required to maintain reserves to cover its estimated ultimate liability for claims (including claims handling expenses) with respect to reported and unreported claims incurred at the end of each accounting period (net of estimated related salvage and subrogation claims and reinsurance recoverables). These reserves will be estimated using actuarial and statistical projections based on the Group's expectations at that time of the ultimate settlement and administration of claims. These expectations will be derived from facts and circumstances then known, predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability. As additional information is developed, it will be necessary to revise estimated potential claims and therefore the Group's reserves. The inherent uncertainties of estimating claim reserves are exacerbated for reinsurers by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer. Establishing an appropriate level of claim reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid will likely deviate, perhaps substantially, from the reserve estimates reflected in the Group's consolidated financial statements.

If the Group's claim reserves are determined to be inadequate after taking into account outwards reinsurance coverage, it will be required to increase claim reserves at the time of such determination with a corresponding reduction in the Group's net income in the period in which the deficiency is rectified. This could have a material adverse effect on the Group. In addition, claim reserves may prove to be inadequate in the event that outwards reinsurance were to become uncollectable. The Group may be forced to fund its obligations by liquidating investments unexpectedly in unfavourable market conditions or by raising funds at unfavourable costs. It is possible that claims in respect of events that occur could exceed the Group's claim reserves and have a material adverse effect on the Group.

1.13 *The Group depends on brokers to distribute its products, and the loss of business provided by brokers could adversely affect it*

The Group will be dependent upon brokers to distribute its products. Brokers are independent and, therefore, no broker is committed to recommend or sell the products of the Group. Accordingly, the Group's relationships with brokers distributing its products will be important, and any failure, inability or unwillingness of brokers to distribute the Group's products could have a material adverse affect on the Group.

1.14 *The Group is exposed to the credit risk of its brokers*

In accordance with industry practice, the Group will generally pay amounts owed on claims under its insurance and reinsurance contracts to brokers, and these brokers, in turn, will pay these amounts over to the clients that have purchased insurance or reinsurance from the Group. If a broker fails to make such a payment, it is possible that the Group will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers for payment over to the Group, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to the Group for those amounts, whether or not the Group has actually received the premiums from the broker. Consequently, the Group will assume a degree of credit risk associated with brokers around the world with respect to most of its insurance and reinsurance business.

1.15 *The Group is subject to the credit risk of its reinsurers and to availability of reinsurance*

The Group will follow the customary insurance practice of reinsuring and retroceding with other insurance and reinsurance companies a portion of the risks under the insurance and reinsurance contracts that it writes. These reinsurance and retrocession arrangements should protect the Group against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss. The amount of coverage purchased will be determined by the Group's risk strategy together with the price, quality and availability of such coverage. Coverage purchased for one year will not necessarily conform to purchases for another year. There can be no assurance that the Group will be able to obtain reinsurance or to enter into retrocession arrangements at a price, quality or in respect of amounts which the Group requires. There can be no assurance that the Group's outwards reinsurance or retrocession protection will be sufficient for all eventualities.

Although reinsurance will not discharge the Insurer from its primary obligation to pay under an insurance policy for losses insured, or under a reinsurance agreement for losses assumed, reinsurance does make the assumed reinsurer or retrocessionaire liable to the Group for the reinsured or retroceded portion of the risk. Collectability of reinsurance and retrocessions is dependent upon the solvency of reinsurers and their willingness to make payments under the terms of reinsurance or retrocession agreements. A reinsurer's insolvency or inability or unwillingness to make payments under the terms of a reinsurance or retrocession arrangement could have a material effect on the Group. The ultimate level of outwards reinsurance cover obtained by the Insurer will depend on a number of factors, including the Group's assessment of the level of reinsurance cover appropriate at the time such cover is sought in light of capacity, pricing, terms and conditions and the actual portfolio of risks assumed by the Insurer, and any projections in this document of the amount of outwards reinsurance cover to be obtained by the Insurer are for illustrative purposes only.

1.16 *Changes to the regulatory systems or loss of permits or licences under which the Group operates or breach of regulatory requirements by the Group could have a material adverse effect on its business*

Because the Company and the Insurer are incorporated in Bermuda, they will be subject to changes of law or regulation in that jurisdiction which may have an adverse impact on their operations, including imposition of tax liability or increased regulatory supervision. In addition, the Company and the Insurer will be exposed to changes in the political environment in Bermuda. The Bermuda insurance and reinsurance regulatory framework has recently become subject to increased scrutiny in many jurisdictions, including in the US and in various states within the US.

The Group's ability to conduct insurance and reinsurance business in different countries generally will require the holding and maintenance of certain licences, permissions or authorisations, and compliance with rules and regulations promulgated from time to time in these jurisdictions. A principal exception to this is with respect to reinsurance in the US. For reinsurance there are no US licences required, although the Group will, in common with other non-US reinsurers, be required to post letters of credit or establish other security in order to enable US cedants to take financial statement credit for ceded liabilities.

A failure to comply with rules and regulations in a jurisdiction could lead to disciplinary action, the imposition of fines or the revocation of the licence, permission or authorisation necessary to conduct the Group's business in that jurisdiction, which could have a material adverse effect on the continued conduct of business in a particular jurisdiction. Among other things, insurance laws and regulations applicable to members of the Group may:

- require the maintenance of certain solvency levels;
- regulate transactions undertaken, including transactions with affiliates and intra-group guarantees;
- in certain jurisdictions, restrict the payment of dividends or other distributions; or
- require the disclosure of financial and other information to regulators.

In the US, generally, only the first and last of the above requirements would apply to the Group.

With respect to insurance business, the Insurer has applied for listing with the IID, which in this case will enable the Insurer to write surplus lines insurance in 18 states of the US. The Insurer also intends to submit individual applications for surplus lines eligibility in the remaining states. Listing with the IID is expected on 1 January 2006, with surplus lines approvals in other states to follow on a gradual basis throughout approximately the next 18 months. Whilst at this point there is no reason to believe the Insurer will not receive approval from the IID or the other states, surplus lines approval, though likely, cannot be assured. If the Insurer should fail to obtain surplus lines approval from the IID or the remaining states, it could not commence underwriting in such states on a surplus lines basis until approval is obtained. In the meantime, until such approvals are obtained, any insurance business in those states will be written only in accordance with available statutory exemptions for non-admitted insurers.

It is nonetheless possible that insurance regulators in the US or elsewhere may review the activities of the Insurer and claim that the Insurer is subject to such jurisdiction's licensing requirements, although the Directors believe it unlikely under the circumstances, assuming the Insurer complies with applicable laws regarding non-admitted business in each jurisdiction. Having to meet such requirements, however, could materially and adversely affect the Insurer's results of operations. Alternatively, any necessary changes to operations could subject the Insurer to taxation in the US.

Effecting or carrying out contracts of insurance in the UK requires authorisation to do so under the FSMA. Lancashire Marketing has been authorised by the FSA as an insurance intermediary, subject to the receipt of certain information, which Lancashire Marketing intends to submit to the FSA immediately following Admission. However, it is not currently intended that any member of the Group will be authorised to carry out or effect insurance contracts in the UK. Consequently, in the event that any member of the Group does, whilst not authorised to do so, effect or carry out contracts of insurance

in the UK, this may expose members of the Group and their directors to potential civil and criminal liability. Further, any contract made by the Insurer whilst not authorised by the FSA when it should have been will be unenforceable against the other party unless the relevant English court otherwise allows. Were this to occur, this could have a material adverse effect on the Group.

In recent years, the insurance industry in the US, the UK, Europe and other markets in which the Group will operate has been, and is in the future likely to be, subject to increased scrutiny by regulatory bodies. This scrutiny has led to changes in certain legal and regulatory provisions which govern the operations of the Group, and it can be expected that further reviews and changes to applicable laws and regulations will occur in the future. The Group cannot predict the effect that any proposed or future law or regulation may have on the financial condition or results of operations of the Group. It is possible that the Group or any of its subsidiaries may be adversely affected by changes in applicable laws or regulations or in their interpretation or enforcement.

In particular, changes in regulatory capital requirements in the US, the UK or Bermuda would impact upon the level of capital reserves required to be maintained by individual Group entities or by the Group as a whole.

1.17 *The terms of the credit facilities available to the Group may impose restrictions on operations, and may restrict growth, result in a competitive disadvantage or adversely affect its ability to conduct business*

The terms of the credit facilities available from time to time to the Group may contain operating and financial covenants. Any such covenants may reduce the Group's flexibility to respond to changing business and economic conditions, including increased competition in the insurance industry, and/or may prevent the Group from expanding the business.

1.18 *The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms*

The Group's future capital requirements will depend on many factors, including any changes to capital requirements imposed by regulators or third-party credit rating agencies (in order to maintain a particular financial strength rating) and the Group's ability to write new business and to establish premium rates and reserves at levels sufficient to cover losses and maintain the rating and solvency levels. To the extent that current capital and the funds generated by the Placing and Debt Financing are insufficient to fund future operating requirements including the maintenance of an appropriate financial strength rating, the Group may need to raise additional funds through financings or curtail its growth. Any equity or debt financing, if available at all, may be on terms that are not favourable to the Group. In the case of equity financings, dilution to the Company's Shareholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of the Common Shares. If the Group cannot obtain adequate capital on favourable terms or at all, its business, financial condition or operating results could be adversely affected.

1.19 *The effect and duration of TRIA is uncertain*

TRIA requires the Group in certain circumstances to offer coverage against acts of terrorism to US insureds. TRIA also imposes various administrative and record-keeping obligations on the Group. In exchange, the US government is required to reimburse insurers for losses arising out of certain terrorist acts in accordance with the terms of TRIA. However, no terrorist events have yet occurred that would trigger TRIA, so there remains considerable uncertainty as to how TRIA would operate in practice. If in the event of a qualifying terrorist attack the US government did not provide reimbursement to the Group in accordance with the Group's expectations, the financial results of the Group could be detrimentally impacted. The US Senate and the House of Representatives have approved different versions of legislation that would extend some form of TRIA protection beyond its current expiry date of 31 December 2005, but as yet no extension of TRIA has been formally approved.

1.20 *Sensitivity to adverse economic, political and market factors*

The markets in which the Group offers its services are directly affected by many national and international factors that are beyond its control. Any one of the following factors, among others, may cause a substantial decline in the financial markets in which the company offers its services: legislative and regulatory changes; economic and political conditions in Bermuda, the UK, the US, continental Europe and elsewhere in the world; concerns about terrorism and war; the level and volatility of equity, property and commodity markets; the level and volatility of interest rates and foreign currency exchange rates and concerns over inflation and changes in institutional and consumer confidence levels. In recent years, the financial markets have been adversely affected by acts of war, terrorism and other armed hostilities. They have also been affected by natural disasters. Uncertain economic prospects or declines in investment markets for the foregoing reasons could adversely affect the profitability of the Group.

1.21 *Loss of business reputation or negative publicity*

The Group is vulnerable to adverse market perception since it operates in an industry where integrity and customer trust and confidence are paramount. In addition, any negative publicity (whether well founded or not) associated with the business or operations of the Group could result in a loss of clients and/or business. Accordingly, any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or the negative publicity resulting from such activities or any allegation of such activities, could have a material adverse effect on the Group.

1.22 *Exposure to litigation*

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers mean that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group in the future could have a material adverse effect on the Group. The Group's insurance may not necessarily cover any of the claims that clients or others may bring against the Group or may not be adequate to protect it against all the liability that may be imposed.

In addition, litigation may have a material adverse effect upon the Group's business in that legal decisions may expand the scope of legal liabilities, which in turn could increase the amount of claims which have to be paid by the Group, thereby reducing profits and profit commission to the Group.

The Group may be involved in litigation against third parties in the normal course of business and the probable outcome of all such litigation may be taken in the assessment of the Group's liabilities. If the outcome of such litigation is incorrectly estimated, the Group's results could be negatively affected.

1.23 *Exposure to coverage disputes*

There can be no assurance that various provisions of the Group's insurance policy forms and reinsurance contracts, such as limitations on, or exclusions from, coverage, will be enforceable in the manner intended. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which the Group may incur losses beyond those that it contemplated would be incurred pursuant to its reinsurance contracts or insurance policies.

1.24 *Reliance on third party service providers and IT systems*

The Group will be reliant on third parties for the provision of important services it needs to run its business including in relation to finance and underwriting systems and processes, IT infrastructure, claims management and investment management services. If any of these service providers should fail to perform to the necessary level this may severely impact the business of the Group and its IT systems. The Group will require complex and extensive IT systems to run its business. A delay in establishing these IT systems could lead to a delay in the implementation of the Group's business plan and could have a material adverse effect on the Group.

1.25 *Unpredictable and multiple losses*

The Group will have substantial exposure to losses resulting from man-made or natural disasters. Catastrophes can be caused by various events, including but not limited to hurricanes, earthquakes, floods, hailstorms, explosions, other severe weather and fires. The incidence and severity of such events are inherently unpredictable and the Group's losses from such events could be substantial. The occurrence of claims from such events is likely to result in substantial volatility in the financial condition of the Group and could have a material adverse effect on the Group's financial condition or results and its ability to write or retain new business. Although the Group may attempt to exclude losses from terrorism and certain other similar risks from some coverages it writes, it may not be successful in doing so. In addition, although the Group will attempt to manage its exposure to such events, a single catastrophic event could affect multiple geographic zones or the frequency or severity of catastrophic events could exceed its estimates, either of which could have a material adverse effect on the Group's financial condition, results of operations and ability to write or retain new business. A single event could result in significant losses across multiple classes of business.

1.26 *Investment performance will affect profitability and solvency position of the Group*

The Group will hold significant investments to support its liabilities and its profits will be affected by the returns achieved on its investment portfolios. Therefore, changes in interest rates, credit ratings and other economic variables could substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's solvency position, which in turn may result in a reduction in the level of premium which the Group is able to underwrite.

1.27 *Industry wide developments could adversely affect the Group's business*

The availability and price of insurance and reinsurance coverage has been affected by factors such as asbestos and environmental liability claims, other liability claims such as directors' and officers' liability and medical malpractice, stock market performance, interest rates, the US terror attacks and hurricanes Katrina, Rita and Wilma. This tightening of supply may result in governmental intervention in the insurance and reinsurance markets which may affect the demand for the Group's products or the risks which may be available for it to consider underwriting. At the same time, threats of further terrorist attacks and the military initiatives and political unrest in the Middle East and Asia have adversely affected general economic, market and political conditions, increasing many of the risks associated with the insurance and reinsurance industry worldwide.

2. Risks relating to the Common Shares

2.1 *There are limitations on the ownership, transfers and voting rights of the Common Shares*

There are provisions in the Bye-laws which may reduce or increase the voting rights of the Common Shares. In general, and except as provided below, Shareholders have one vote for each Common Share held by them and are entitled to vote at all meetings of Shareholders. However, if, and so long as, the Common Shares of a Shareholder are treated as "controlled shares" (as determined under section 958 of the Code) of any US Person (as defined in paragraph 10.3.2 of Part 9 – Additional Information) and such controlled shares constitute 9.5 per cent. or more of the votes conferred by the Company's issued shares, the voting rights with respect to the controlled shares of such US Person (a "9.5 per cent. US Shareholder") shall be limited, in the aggregate, to a voting power of less than 9.5 per cent., under a formula specified in the Bye-laws. The formula is applied repeatedly until the voting power of all 9.5 per cent. US Shareholders has been reduced to less than 9.5 per cent. In addition, the Board may limit a Shareholder's voting rights where it deems it appropriate to do so to (i) avoid the existence of any 9.5 per cent. US Shareholder; and (ii) avoid certain adverse tax, legal or regulatory consequences to the Company or any of the Company's subsidiaries or any shareholder or its affiliates. "Controlled shares" includes, among other things, all shares of the Company that such US Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code).

Under these provisions, certain Shareholders may have their voting rights limited, while other Shareholders may have voting rights in excess of one vote per share (see paragraph 4.5 of Part 9 – Additional Information). Moreover, these provisions could have the effect of reducing the votes of certain Shareholders who would not otherwise be subject to the 9.5 per cent. limitation by virtue of their direct share ownership.

The Company also has the authority under the Bye-laws to request information from any Shareholder for the purpose of determining whether a Shareholder's voting rights are to be reallocated under the Bye-laws. If a Shareholder fails to respond to the Company's request for information or submits incomplete or inaccurate information in response to a request by it, the Company may, in its sole discretion, eliminate such Shareholder's voting rights.

Under a general policy of the BMA, the Common Shares may be freely transferred under the Bermuda Exchange Control Act 1972 and the related regulations following Admission. If, at any time following Admission, the BMA withdraws its consent to the free transferability of the Common Shares, then the Admission and trading of those Common Shares on AIM will be immediately suspended. Such suspension would remain in force until the BMA reinstated its consent to the free transferability of the Common Shares.

2.2 *Enforcement of judgments in Bermuda may be difficult*

As the Company is a Bermuda exempted company, the rights of Shareholders will be governed by Bermuda law and the Company's memorandum of association and Bye-laws. The rights of Shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. The majority of the Directors are not residents of the UK and substantially all of the Company's assets are located outside of the UK. As a result, it may be difficult for investors to effect service of process on those persons in the UK or to enforce in the UK judgments obtained in UK courts against the Company or those persons who may be liable under UK law. The current position with regard to enforcement of judgments in Bermuda is set out below but this may be subject to change.

A final and conclusive judgment of a superior foreign court against the Company, under which a sum of money is payable (not being a sum of money payable in respect of multiple damages, or a fine, penalty tax or other charge of a like nature) may be enforceable in the Supreme Court of Bermuda against the Company if the foreign court is situated in a country to which The Judgments (Reciprocal Enforcement) Act 1958 of Bermuda (the "1958 Act") applies. The procedure provided for in the 1958 Act must be followed if the 1958 Act applies. The 1958 Act applies to the UK. Under the 1958 Act, a judgment obtained in the superior courts of a territory to which it applies would be enforced by the Supreme Court of Bermuda without the necessity of any retrial of the issues subject of such judgment or any re-examination of the underlying claims.

Where such foreign judgment is expressed in a currency other than Bermuda dollars, registration of the judgment will involve the conversion of the judgment debt into Bermuda dollars on the basis of the exchange rate prevailing at the date of such judgment as is equivalent to the judgment sum payable. The present policy of the BMA is to give consent for the Bermuda dollar award made by the Supreme Court of Bermuda to be paid in the original judgment currency.

No stamp duty or similar or other tax or duty is payable in Bermuda on the enforcement of a foreign judgment. Court fees will be payable in connection with proceedings for enforcement.

2.3 *No Takeover Code protection*

As the Company is incorporated in Bermuda, it is subject to Bermuda law. The Takeover Code will not apply to the Company. Bermuda law does not contain any provisions similar to those applicable in the UK which are designed to regulate the way in which takeovers are conducted. It is therefore possible that an offeror may gain control of the Company in circumstances where non-selling Shareholders do not receive, or are not given the opportunity to receive, the benefit of any control premium paid to selling Shareholder(s). The Bye-laws contain certain takeover protections, although these will not

provide the full protections afforded by the Takeover Code. The relevant provisions of the Bye-laws are summarised in paragraph 4.19 of Part 9 – Additional Information.

2.4 *A change of control of the Company may be difficult to effect under applicable insurance laws*

A change of control could require consents from regulators in various jurisdictions in which the Group operates. In the UK, a person who intended to acquire 20 per cent. or more of the Common Shares or voting power in the Company would become a controller of Lancashire Marketing and would have to obtain prior approval of the FSA before completing the acquisition of such shares or voting power.

These laws (and laws having similar effect in other jurisdictions) may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company, including through transactions, in particular unsolicited transactions, that some or all of the Shareholders might consider to be desirable.

2.5 *Market risk – the value of Common Shares may go down as well as up*

Following Admission, it is likely that the Company's share price will fluctuate and may not always accurately reflect the underlying value of the business. The value of Common Shares may go down as well as up and investors may lose some or all of the original sum invested. The price that investors may realise for their holdings of Common Shares, when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others of which are extraneous. Such factors may include the possibility that the market for the Common Shares will be less liquid than for other equity securities and that the price of the Common Shares will be relatively volatile.

2.6 *No assurance that an active trading market will develop*

As there has been no public trading market for the Common Shares, there can be no assurance that an active trading market will develop or, if one does develop, that it will be maintained.

2.7 *US and other non-UK holders of Common Shares may not be able to exercise pre-emption rights*

Holders of Common Shares will have certain pre-emption rights under the Bye-laws in respect of certain issues of shares by the Company unless those rights are disapplied by a special majority of the Shareholders at a general meeting. Securities laws of certain jurisdictions may restrict the Group's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out on a pre-emptive basis.

In particular, US holders of Common Shares may not be able to exercise their pre-emption rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. The Directors intend to evaluate at the time of any rights issue the cost and potential liabilities associated with any such registration statement, as well as the indirect benefits to the Company of enabling the exercise by US holders of their pre-emption rights to Common Shares and any other factors considered appropriate at the time, and then to make a decision as to whether to file such a registration statement. No assurance can be given that any registration statement would be filed, or that an exemption would be available, so as to enable the exercise of such Shareholders' pre-emption rights.

2.8 *Future sales of Common Shares may affect their market price and the future exercise of Warrants or Options will result in immediate and substantial dilution*

The Company cannot predict what effect, if any, future sales of Common Shares, or the availability of Common Shares for future sale, will have on the market price of Common Shares including potential sales of substantial amounts of Common Shares following termination of the restrictions as set out in the Lock-Up Agreements (the terms of which are summarised in paragraph 16.2 of Part 9 – Additional Information) or following the exercise of the Warrants or Options. Sales of substantial amounts of Common Shares in the public market following Admission, or the perception that such sales could occur, could materially adversely affect the market price of Common Shares and may make it more difficult for Shareholders to sell Common Shares at a desirable time and price.

2.9 *The Company's Common Shares and operating results are subject to currency fluctuations*

The Company's Common Shares and the majority of its income will be US$ denominated. This may be a different currency to that in which Shareholders account in their own funds. Any future payments to Shareholders of dividends or in respect of surplus capital (subject to the future financial performance and position of the Group and applicable laws, regulation, and rating and tax requirements) made in US dollars or pounds sterling may be subject to exchange rate fluctuations. Currency fluctuations may therefore affect Shareholder returns.

While the Directors expect that a large portion of the Group's premiums will be written in US dollars, some of its operating expenses will be payable in pounds sterling. The Group may, from time to time, experience losses resulting from fluctuations in the values of pounds sterling and other non-US currencies, which could adversely affect its operating results. Future capital raisings may be adversely affected by currency exchange fluctuations.

2.10 *Holding company structure and restrictions on dividends*

The Company is a holding company and it is not currently envisaged that it will conduct insurance or reinsurance operations of its own. Dividends from subsidiaries together with any investment income, are expected to be the Company's main source of funds to pay expenses and dividends, if any. It is uncertain when, if ever, dividends will be declared by the Company to its Shareholders (which will be at the discretion of the Board after taking into account many factors, including those summarised above and below) and, in particular, the dividend policy mentioned in Part 1 – Key Information should not be construed as a dividend forecast. Additionally, at certain times, the Company may be contractually limited or prohibited from declaring dividends, including at any time when the Company is deferring interest with regard to, or is in default under, the Notes that are described in paragraph 16.5 of Part 9 – Additional Information. Initially on commencing operations, the Company expects to retain virtually all profit (if any) to provide capacity to write insurance and reinsurance and to accumulate reserves and surplus for the payment of claims.

The other members of the Group may from time to time be subject to restrictions on their ability to make distributions to the Company, as a result of a number of factors including lack of distributable reserves, restrictive covenants contained within loan agreements, regulatory, fiscal or other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group's results or financial condition. In particular, part or all of the declared underwriting profits of the Insurer accruing on a particular year of account may be required to be retained by the Group, to comply with the BMA's solvency rules (see Part 5 – Regulation and Monitoring for more details on this) or to maintain capital adequacy levels to maintain necessary rating agency requirements. These require that each Bermuda reinsurance entity be able to show sufficient assets to meet its liabilities plus a solvency margin. Where the BMA's solvency test shows a deficiency, the Bermuda reinsurance entity is required to provide additional assets and these may include any unrealised underwriting profits. To meet the requirements of a rating agency for a particular financial strength rating the Insurer may be required to retain profits in order to maintain such financial strength rating or else suffer a downgrade. All or any of these requirements may affect the ability of the Group to pay a dividend.

Furthermore, any change in the tax treatment of dividends or interest received by the Company may reduce the level of yield received by Shareholders.

The results of the Group may fluctuate significantly as a result of a variety of factors, many of which may be outside the Group's control. Period to period comparisons of the Group's results may not be meaningful and investors should not rely on them as indications of the Group's future performance. The Group's results may fall below the expectations of securities analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of the Common Shares.

2.11 *Significant shareholders*

Immediately following the Placing, 62.2 per cent. in aggregate of the Common Shares will be owned by the Initial Founders (assuming no exercise of the over-allotment option). As such, some or all of the Initial Founders could exercise their respective voting rights to block or secure certain corporate actions of the Company which can only be carried out by a resolution of Shareholders requiring a majority vote of Shareholders. The respective interests of some or all of the Initial Founders could conflict with the interests of other Shareholders and they could exercise their respective voting rights in a way that is against the interests of such other Shareholders.

3. Risks relating to tax

3.1 *The Company and the Insurer may be subject to UK tax*

Any change in the Company's or the Insurer's UK tax status or any change in UK taxation legislation could affect the Company's ability to provide returns to Shareholders.

Statements in this document concerning the UK taxation of investors in Common Shares are based on current UK tax law and practice, which are subject to change. The taxation of an investment in the Company depends on the individual circumstances of investors.

Neither the Company nor the Insurer is incorporated in the UK. Accordingly, neither the Company nor the Insurer should be treated as being resident in the UK for corporation tax purposes unless its central management and control is exercised in the UK. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. Both the Company and the Insurer intend to manage their affairs so that neither of them is resident in the UK for tax purposes.

A company not resident in the UK for corporation tax purposes can nevertheless be subject to UK corporation tax if it carries on a trade through a permanent establishment in the UK, but the charge to UK corporation tax is limited to profits (including revenue profits and capital gains) attributable directly or indirectly to such permanent establishment.

Both the Company and the Insurer intend to operate in such a manner so that neither of them carry on a trade through a permanent establishment in the UK. Nevertheless, because neither case law nor UK statute completely defines the activities that constitute trading in the UK through a permanent establishment, HMRC might contend successfully that either or both of the Company and the Insurer is/are trading in the UK through a permanent establishment in the UK.

The UK has no income tax treaty with Bermuda. There are circumstances in which companies that are neither resident in the UK nor entitled to the protection afforded by a double tax treaty between the UK and the jurisdiction in which they are resident may be exposed to income tax in the UK (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a permanent establishment. However, each of the Company and the Insurer intends to operate in such a manner that neither of them will fall within the charge to income tax in the UK (other than by deduction or withholding) in this respect.

If the Company or the Insurer were treated as being resident in the UK for UK corporation tax purposes, or if the Company or the Insurer were to be treated as carrying on a trade in the UK through a permanent establishment or otherwise subject to UK income tax, the results of the Group's operations could be materially adversely affected.

3.2 *Profit attribution risk in the UK in relation to Lancashire Marketing*

It is intended that Lancashire Marketing will operate in such a way that it will generate a profit equivalent to that which would have been achieved by an independent insurance marketing company operating on an arm's length basis. However, there is a risk that HMRC will seek to attribute further profit to Lancashire Marketing on the basis that Lancashire Marketing was an agent or permanent establishment of the Insurer. If this were to occur, it may result in other regulatory issues with respect

to the Company as described in Part 5 – Regulation and Monitoring. Alternatively, HMRC could seek to challenge the basis on which Lancashire Marketing charged the Insurer for Lancashire Marketing's marketing services.

3.3 *The Company and the Insurer may become subject to taxes in Bermuda*

The Company and the Insurer may become subject to taxes in Bermuda after 28 March 2016, which may have a material adverse effect on the Group's results of operations and the value of the Common Shares.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given the Company an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Company or the Insurer or any of either company's operations, shares, debentures or other obligations until 28 March 2016. Given the limited duration of the Minister of Finance's assurance, it cannot be certain that the Company and the Insurer will not be subject to any Bermuda tax after 28 March 2016. See paragraph 10.2 of Part 9 – Additional Information.

3.4 *The Group may be subject to US tax*

A member of the Group may be subject to US tax that may have a material adverse effect on the Group's results of operations and the value of the Common Shares.

If any member of the Group were considered to be engaged in a trade or business in the US, it could be subject to US corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such US business, in which case its results of operations could be materially adversely affected.

The Company and the Insurer are Bermuda companies and Lancashire Marketing is a UK company. The Directors intend to manage the business of the Company, the Insurer and Lancashire Marketing so that each of these companies will operate in such a manner that none of these companies will be subject to US tax (other than US excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring US risks and US withholding tax on certain US source investment income), because none of these companies should be treated as engaged in a trade or business within the US. However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the US, it cannot be certain that the US Internal Revenue Service ("IRS") will not contend successfully that the Group is engaged in a trade or business in the US. See paragraph 10.3 of Part 9 – Additional Information.

3.5 *Holders of 10 per cent. or more of the Common Shares*

Holders of 10 per cent. or more of the Common Shares may be subject to US income taxation under the "controlled foreign corporation" ("CFC") rules.

If a direct or indirect potential US investor is a "10 per cent. US Shareholder" of a foreign corporation (defined as a US Person (as defined in paragraph 10.3.2 of Part 9 – Additional Information) who owns (directly, indirectly through foreign entities or "constructively" (as defined below)) at least 10 per cent. of the total combined voting power of all classes of stock entitled to vote of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year), and owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC's taxable year, a direct or indirect potential US investor must include in its gross income for US federal income tax purposes its *pro rata* share of the CFC's "subpart F income", even if the subpart F income is not distributed. "Subpart F income" of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income). A foreign corporation is considered a CFC if "10 per cent. US Shareholders" own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (that

is, "constructively")) more than 50 per cent. of the total combined voting power of all classes of stock of that foreign corporation, or the total value of all stock of that foreign corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25 per cent. of the total combined voting power of all classes of stock (or more than 25 per cent. of the total value of the stock) is owned by 10 per cent. US Shareholders on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts exceeds 75 per cent. of the gross amount of all premiums or other consideration in respect of all risks.

The Directors believe that because of the anticipated dispersion of the Company's share ownership, provisions in the Bye-laws that limit voting power (these provisions are described under paragraph 4 of Part 9 – Additional Information) and other factors, no US Person who owns shares of the Company directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities or constructively) 10 per cent. or more of the total voting power of all classes of shares of the Company. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. See paragraph 10.3 of Part 9 – Additional Information.

3.6 *US Persons who hold Common Shares (the related party insurance income rules)*

US Persons who hold Common Shares may be subject to US income taxation at ordinary income rates on their proportionate share of the Insurer's "related party insurance income" ("RPII").

If the RPII (determined on a gross basis) of the Insurer were to equal or exceed 20 per cent. of the Insurer's gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through entities 20 per cent. or more of the voting power or value of the Company, then a US Person who owns any shares of the Company (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for US federal income tax purposes such person's *pro rata* share of the Insurer's RPII for the entire taxable year, determined as if such RPII were distributed proportionately only to US Persons at that date regardless of whether such income is distributed, in which case a direct or indirect potential US investor's investment could be materially adversely affected. In addition, any RPII that is includible in the income of a US tax-exempt organisation may be treated as unrelated business taxable income. The amount of RPII earned by the Insurer (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect US holder of shares or any person related to such holder) will depend on a number of factors, including the identity of persons directly or indirectly insured or reinsured by the Insurer. The Directors believe that the direct or indirect insureds of the Insurer (and related persons) should not directly or indirectly own 20 per cent. or more of either the voting power or value of the Common Shares immediately after the Placing and the Directors do not expect this to be the case in the foreseeable future. Additionally, the Directors do not expect the gross RPII of the Insurer to equal or exceed 20 per cent. of its gross insurance income in any taxable year for the foreseeable future, but the Directors cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond their control. See paragraph 10.3 of Part 9 – Additional Information.

3.7 *US Persons who dispose of Common Shares*

US Persons who dispose of Common Shares may be subject to US federal income taxation at the rates applicable to dividends on a portion of such disposition.

The RPII rules provide that if a US Person disposes of shares in a foreign insurance corporation in which US Persons own 25 per cent. or more of the shares (even if the amount of gross RPII is less than 20 per cent. of the corporation's gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20 per cent. threshold), any gain from the disposition will generally be treated as a dividend to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (whether or not such earnings and profits are attributable to RPII). In addition, such a holder will

be required to comply with certain reporting requirements, regardless of the amount of shares owned by the holder. These RPII rules should not apply to dispositions of Common Shares because the Company will not itself be directly engaged in the insurance business. The RPII provisions, however, have never been interpreted by the courts or the US Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of the RPII rules by the IRS, the courts, or otherwise, might have retroactive effect. The US Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to us is uncertain. See paragraph 10.3 of Part 9 – Additional Information.

3.8 *US Persons who hold Common Shares (the status of the Company as a passive foreign investment company)*

US Persons who hold Common Shares will be subject to adverse tax consequences if the Company is considered to be a passive foreign investment company ("PFIC") for US federal income tax purposes.

If the Company is considered a PFIC for US federal income tax purposes, a US Person who owns any shares of the Company directly or indirectly (for example, through a foreign partnership) will be subject to adverse tax consequences including subjecting the investor to a greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, in which case a direct or indirect potential US investor's investment could be materially adversely affected. In addition, if the Company is considered a PFIC, upon the death of any US individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the shares that might otherwise be available under US federal income tax laws. The Directors believe that the Company should not be a PFIC, and currently is not expected to become, a PFIC for US federal income tax purposes. There can be no assurance however, that the Company will not be deemed a PFIC by the IRS. If the Company were considered a PFIC, this could have material adverse tax consequences for an investor that is subject to US federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. See paragraph 10.3 of Part 9 – Additional Information.

3.9 *US tax-exempt organisations who own Common Shares*

US tax-exempt organisations who own Common Shares may recognise unrelated business taxable income.

A US tax-exempt organisation may recognise unrelated business taxable income if a portion of the insurance income of the Insurer is allocated to the organisation, which generally would be the case if the Insurer is a CFC and the tax-exempt shareholder is a US 10 per cent. Shareholder or there is RPII, certain exceptions do not apply and the tax-exempt organisation owns any shares of the Company. Although the Directors do not believe that any US Persons should be allocated such insurance income, they cannot be certain that this will be the case. US tax-exempt investors are advised to consult their own tax advisers. See paragraph 10.3 of Part 9 – Additional Information.

3.10 *Changes in US federal income tax law*

Changes in US federal income tax law could materially adversely affect an investment in the Common Shares.

Legislation has been introduced in the US Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the US but have certain US connections. While there are no currently pending legislative proposals which, if enacted, would have a material adverse effect on the Company or its shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on the Company or its shareholders.

Additionally, the US federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the US, or is a PFIC, or whether US Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Directors cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

3.11 *The impact of the OECD's review of harmful tax competition*

The impact of the Organisation for Economic Cooperation and Development's (the "OECD") action to eliminate harmful tax practices is uncertain and could adversely affect the Company's tax status in Bermuda.

The OECD has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated 18 April 2002 and updated as of June 2004, Bermuda was not listed as a tax haven jurisdiction because it had previously signed a letter committing itself to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. The Directors are not able to predict what changes will arise from the commitment or whether such changes will subject the Company and the Insurer to additional taxes.

3.12 *Premium tax*

Premium taxes may be payable on premiums received in respect of direct insurance business written by the Insurer. The amount of premium tax levied will depend on the location of the risk and the premium tax regime of that territory. It is impossible to calculate the likely level of premium taxes incurred due to the expected diversity of the book of business written. Premium taxes should not affect the profitability of the Insurer as such taxes generally will be paid by the insured on top of the premiums received. However, premium taxes can have an impact on cash flows. Reinsurance is normally exempt from premium taxes.

PART 4

DETAILS OF THE PLACING

1. Placing

The Company is issuing the Institutional Placing Shares and the Subscription Shares pursuant to the Placing at the Placing Price and the Subscription Price, respectively, which in aggregate will raise approximately US$884.8 million (net of expenses and assuming no exercise of the over-allotment option). The Institutional Placing Shares will represent approximately 37.8 per cent. of the issued common share capital of the Company immediately after Admission and the Subscription Shares will represent approximately 60.5 per cent. of the issued common share capital of the Company immediately after Admission (assuming no exercise of the over-allotment). The Institutional Placing Shares have been placed with institutional and other investors.

The Placing is conditional, *inter alia*, upon Admission and the Placing Agreement and the New Subscription Agreements becoming unconditional in all respects. The Placing is fully underwritten by the Managers on the terms and subject to the conditions of the Placing Agreement. Details of the Placing Agreement and the New Subscription Agreements are contained in paragraphs 16.1 and 16.3 respectively of Part 9 – Additional Information.

There are no existing Shareholders who are selling Common Shares pursuant to the Placing. It is expected that the interests of the Initial Founders immediately following Admission will, in aggregate, amount to 62.2 per cent. of the issued common share capital of the Company (assuming no exercise of the over-allotment option).

2. Placing Agreement

Pursuant to the Placing Agreement dated 13 December 2005, conditional upon, *inter alia*, Admission taking place on or before 8.00 am on 16 December 2005, the Managers have agreed to procure subscribers for the Placing Shares, failing which the Managers have agreed severally and not jointly themselves to subscribe, on the terms set out in the Placing Agreement, for the Placing Shares proposed to be issued by the Company at the Placing Price (provided that the obligation to procure subscribers for the Subscription Shares shall be satisfied by the execution of the New Subscription Agreements by the Subscribers). Details of the Placing Agreement are contained in paragraph 16.1 of Part 9 – Additional Information.

3. Debt Financing

The Company intends, effective as of Admission, to raise approximately US$121.9 million (net of expenses) through the issue of the Notes. The Company has entered into note purchase agreements further described in paragraph 16.5 of Part 9 – Additional Information, which will govern the terms upon which the Company will issue the Notes.

4. Stabilisation and over-allotment

In connection with the Placing, Merrill Lynch, as stabilising manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the Common Shares at a level higher than that which might otherwise prevail in the open market. Merrill Lynch is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be taken during the period 13 December 2005 up to and including 23 December 2005.

Save as required by law or regulation, Merrill Lynch does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Placing.

The Company has granted to Merrill Lynch, as stabilising manager, an over-allotment option pursuant to which Merrill Lynch may require the Company to issue additional Common Shares at the Placing Price to cover over-allotments, if any, made in connection with the Placing and to cover any short positions resulting from stabilisation transactions. The number of Common Shares subject to the over-allotment option is, in aggregate, equal to approximately 15 per cent. of the total number of Institutional Placing Shares to be issued in the Placing (before any exercise of the over-allotment option). The over-allotment option may be exercised from the date of commencement of conditional trading for a period of 30 calendar days thereafter, provided that it may only be exercised to the extent that Common Shares have been over-alloted.

5. Dealings and Admission

It is expected that Admission will become effective and that unconditional dealings in the Common Shares will commence on AIM on 16 December 2005. Dealings on AIM before Admission will only be settled if Admission takes place. All dealings in Common Shares prior to the commencement of unconditional dealings will be solely at the risk of the parties concerned. Should A.M. Best be unable or unwilling for any reason to grant the initial "A-" financial strength rating to the Insurer after the Group has demonstrated to A.M. Best the receipt of necessary funds, it is likely that the Common Shares would be suspended and the Company may seek to return the net proceeds of the Placing to Shareholders.

It is expected that Institutional Placing Shares allocated to investors in the Placing will be delivered in uncertificated form in the form of Depositary Interests through CREST on Admission. Further information on the Depositary Interests is contained in paragraph 17 of Part 9 – Additional Information.

6. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. CRESTCo is unable to take responsibility for the electronic settlement of shares issued by non-UK companies. However, to enable investors to settle international securities under the CREST system, CRESTCo has proposed a method whereby a custodian can act as depositary of the international securities and issue dematerialised depositary interests representing the underlying international securities which it holds on trust for the holders of the securities.

With effect from Admission, CREST members will be able to hold and transfer interests in Common Shares within CREST, pursuant to a depositary interest arrangement established by the Company.

The Common Shares will not themselves be admitted to CREST, rather Capita IRG Trustees Limited (the "Depositary"), a member of part of the same group of companies as the Company's registrars, will issue Depositary Interests in respect of the underlying Common Shares. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Depositary Interests will have the same security code (ISIN) as the underlying Common Shares and will not require a separate admission to AIM. The Depositary Interests will be created and issued pursuant to a deed poll to be entered into by the Depositary. Further details of these arrangements are set out in paragraphs 16 and 17 of Part 9 – Additional Information. The attention of prospective investors is drawn to the description of the treatment of transfers of Depositary Interests for SDRT purposes set out in paragraph 17 of Part 9 – Additional Information. The full text of the deed poll is set out in Part 10 – Depositary Interests: terms of Deed Poll. Holders of the Common Shares in certificated form who wish to hold Depositary Interests through the CREST system may be able to do so and should contact the Depositary. Further details of these arrangements are set out in paragraph 17 of Part 9 – Additional Information.

7. Lock-Up Agreements

The Directors, applicable employees and all other related parties (as such terms are defined in the AIM Rules) who, in each case, hold Common Shares have (with effect from Admission and subject to certain limited exceptions) undertaken not to dispose of any interests in any of their Common Shares for a period of 12 months following Admission. The Subscribers (other than those who have entered into lock-up agreements as described in the previous sentence) have also undertaken not to dispose of any interests in any

of their Common Shares for a period of six months following Admission (without the prior written consent of Merrill Lynch) subject to certain limited exceptions. In addition, under the Placing Agreement, the Company has undertaken not to issue any further Common Shares for a period of 12 months from Admission (without the prior written consent of Merrill Lynch) subject to certain exceptions. Further details of the Lock-Up Agreements are set out in paragraph 16.2 of Part 9 – Additional Information.

8. Selling restrictions

The distribution of this document and the offer of Common Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

8.1 *European Economic Area*

In relation to each Relevant Member State, with effect from and including the Relevant Implementation Date, no Common Shares have been offered or will be offered to the public in that Relevant Member State, except that with effect from and including the Relevant Implementation Date, offers of Common Shares may be made to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of Merrill Lynch; or

(d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of Common Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Common Shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this paragraph, the expression an "offer of any Common Shares to the public" in relation to any Common Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Common Shares to be offered so as to enable an investor to decide to purchase any Common Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In the case of any Common Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Common Shares acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Common Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of Merrill Lynch has been obtained to each such proposed offer or resale. The Company and Merrill Lynch and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement, and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified Merrill Lynch of such fact in writing may, with the consent of Merrill Lynch, be permitted to subscribe for or purchase Common Shares.

8.2 *UK*

This document is being distributed only to, and is directed only at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), (ii) falling within Article 49(2) (a) to (d) of the Order and (iii) to whom it may otherwise lawfully be distributed (all such persons together with qualified investors (as defined above) being referred to as "relevant persons"). This document must not be acted on or relied on in the UK by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only in the UK to relevant persons, and will be engaged in only with such persons.

8.3 *US, Australia, Canada and Japan*

The Common Shares have not been and will not be registered under the Securities Act and subject to certain exceptions, the Common Shares may not be offered or sold within the US or to or for the account or benefit of, US Persons (as such term is defined in Regulation S under the Securities Act ("Regulation S")). The Ordinary Shares have not been and will not be registered with any securities regulatory authority of any state or other jurisdiction of the US or under the applicable securities laws of Australia, Canada or Japan. Subject to certain exceptions, the Common Shares may not be offered or sold in Australia, Canada or Japan or to, or for the account or benefit of, any resident of the US, Australia, Canada or Japan. The Common Shares are being offered and sold outside the US in reliance on Regulation S.

Each subscriber of the Common Shares offered hereby in reliance on Regulation S will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used in this document as defined in Regulation S):

(a) the subscriber is outside the US and is not a US person;

(b) the subscriber acknowledges that the Common Shares have not been, and will not be, registered under the Securities Act and that the Common Shares are being offered only to non-US persons outside the US in reliance on Regulation S;

(c) the subscriber acknowledges and agrees that the Common Shares may not be resold in the US or to US persons absent an applicable exemption from the registration requirements of the Securities Act; and

(d) for a period of 40 days from Admission, the subscriber will not resell or otherwise transfer the Common Shares except outside the US to non-US persons in compliance with Rule 903 or 904 under the Securities Act.

PART 5

REGULATION AND MONITORING

As described elsewhere in this document, the Company has established the Insurer as a Class 4 insurance company in Bermuda under the Insurance Act. The following sections describe some of relevant regulatory provisions that will be applicable in respect of such Insurer. The Insurer currently intends to conduct its business at the outset so as not to be subject to insurance licensing requirements in any jurisdiction, other than Bermuda.

1. Bermuda insurance regulation

1.1 *The Insurance Act*

As a holding company, the Company is not subject to Bermuda insurance regulations. The Insurance Act, which will regulate the insurance business of the Insurer, provides that no person shall carry on any insurance business in or from within Bermuda unless registered as an insurer under the Insurance Act by the BMA, which is responsible for the day to day supervision of insurers. Under the Insurance Act, insurance business includes reinsurance business. The BMA, in deciding whether to grant registration, has broad discretion to act as it thinks fit in the public interest. The BMA is required by the Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise to operate an insurance business. The continued registration of a company as an insurer under the Insurance Act is subject to its complying with the terms of its registration and such other conditions as the BMA may impose from time to time.

An Insurance Advisory Committee appointed by the Bermuda Minister of Finance advises the BMA on matters connected with the discharge of its functions. Sub-committees of the Insurance Advisory Committee supervise and review the law and practice of insurance in Bermuda, including reviews of accounting and administrative procedures.

The Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements and grants the BMA powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below. Unless the context specifies otherwise, the following description assumes the Insurer is registered as a Class 4 insurer under the Insurance Act.

1.2 *Classification of insurers*

The Insurance Act distinguishes between insurers carrying on long-term business and insurers carrying on general business. There are four classifications of insurers carrying on general business, with Class 4 insurers subject to the strictest regulation. The Insurer has been registered to carry on general business as a Class 4 insurer in Bermuda and will be regulated as such under the Insurance Act.

1.3 *Cancellation of an insurer's registration*

An insurer's registration may be cancelled by the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act or if, in the opinion of the BMA, the insurer has not been carrying on business in accordance with sound insurance principles.

1.4 *Principal representative*

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. For the purpose of the Insurance Act, the principal office of the Insurer will be at 44 Church Street, Hamilton HM12, Bermuda, and the Insurer's principal representative is IAS. Without a reason acceptable to the BMA, an insurer may not terminate the appointment of its principal

representative, and the principal representative may not cease to act as such, unless 30 days' notice in writing to the BMA is given of the intention to do so. It is the duty of the principal representative, within 30 days of reaching the view that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred, to make a report in writing forthwith to the BMA setting out all the particulars of the case that are available to the principal representative. Examples of such a reportable "event" include failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin or a liquidity or other ratio.

1.5 *Independent approved auditor*

Every registered insurer must appoint an independent auditor who will annually audit and report on the statutory financial statements and the statutory financial return of the insurer, both of which, in the case of the Insurer, are required to be filed annually with the BMA. The independent auditor of the Insurer must be approved by the BMA and may be the same person or firm who audits the Insurer's financial statements and reports for presentation to its shareholders. The Insurer's independent auditor is Ernst & Young.

1.6 *Loss reserve specialist*

As a Class 4 insurer, the Insurer is required to submit an opinion of its approved loss reserve specialist with its statutory financial return in respect of its loss and loss expense provisions. The loss reserve specialist, who will normally be a qualified casualty actuary, must be approved by the BMA. The Insurer's approved loss reserve specialist is Mr Thomas Stanford, FCAS (of Ernst & Young's, Hamilton, Bermuda office).

1.7 *Annual statutory financial statements*

The Insurer must prepare annual statutory financial statements. The Insurance Act prescribes rules for the preparation and substance of such statutory financial statements (which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto). The Insurer is required to give detailed information and analyses regarding premiums, claims, reinsurance and investments. The statutory financial statements are not prepared in accordance with US generally accepted accounting principles and are distinct from the financial statements prepared for presentation to the Insurer's shareholders under the Insurance Act, which financial statements will be prepared in accordance with IFRS. The Insurer, as a general business insurer, will be required to submit the annual statutory financial statements as part of the annual statutory financial return. The statutory financial statements and the statutory financial return do not form part of the public records maintained by the BMA.

1.8 *Annual statutory financial return*

The Insurer will be required to file with the BMA a statutory financial return no later than four months after its financial year end (unless specifically extended upon application to the BMA). The statutory financial return for a Class 4 insurer includes, among other matters, a report of the approved independent auditor on the statutory financial statements of such insurer, solvency certificates, the statutory financial statements, the opinion of the loss reserve specialist and a schedule of reinsurance ceded. The solvency certificates must be signed by the principal representative and at least two directors of the insurer who are required to certify, among other matters, that the minimum solvency margin has been met and whether the insurer complied with the conditions attached to its certificate of registration. The independent approved auditor is required to state whether in its opinion it was reasonable for the directors to so certify. Where an insurer's accounts have been audited for any purpose other than compliance with the Insurance Act, a statement to that effect must be filed with the statutory financial return.

1.9 *Minimum solvency margin and restrictions on dividends and distributions*

Under the Insurance Act, the value of the general business assets of a Class 4 insurer must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin. The Insurer, once registered as a Class 4 insurer:

1. will be required, with respect to its general business, to maintain a minimum solvency margin (the prescribed amount by which the value of its general business assets must exceed its general business liabilities) equal to the greatest of:

   (a) BD$100,000,000;

   (b) 50 per cent. of net premiums written (being gross premiums written less any premiums ceded by the Insurer but the Insurer may not deduct more than 25 per cent. of gross premiums when computing net premiums written); and

   (c) 15 per cent. of loss and other insurance reserves;

2. is prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio (if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, the Insurer will be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year);

3. is prohibited from declaring or paying in any financial year dividends of more than 25 per cent. of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit stating that it will continue to meet the required margins;

4. is prohibited, without the approval of the BMA, from reducing by 15 per cent. or more its total statutory capital as set out in its previous year's financial statements and any application for such approval must include an affidavit stating that it will continue to meet the required margins; and

5. is required, at any time it fails to meet its solvency margin, within 30 days (45 days where total statutory capital and surplus falls to US$75 million or less) after becoming aware of that failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

Additionally, under the Act, the Insurer may not declare or pay a dividend, or make a distribution from contributed surplus, if there are reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or the realisable value of its assets would be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

1.10 *Minimum liquidity ratio*

The Insurance Act provides a minimum liquidity ratio for general business insurers, such as the Insurer intends to be. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75 per cent. of the amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, account and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

1.11 *Supervision, investigation and intervention*

The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to the BMA, the BMA may direct an insurer to produce documents or information relating to matters connected with the insurer's business.

If it appears to the BMA that there is a risk of the Insurer becoming insolvent, or that it is in breach of the Insurance Act or any conditions imposed upon its registration, the BMA may, among other things, direct the Insurer (a) not to take on any new insurance business, (b) not to vary any insurance contract if the effect would be to increase the Insurer's liabilities, (c) not to make certain investments, (d) to realise certain investments, (e) to maintain in, or transfer to, the custody of a specified bank, certain assets, (f) not to declare or pay any dividends or other distributions or to restrict the making of such payments and/or (g) to limit its premium income.

1.12 *Disclosure of information*

In addition to powers under the Insurance Act to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons) to be produced to the BMA. Further, the BMA has been given powers to assist other regulatory authorities, including foreign insurance regulatory authorities with their investigations involving insurance and reinsurance companies in Bermuda but subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether to co-operate is in the public interest. The grounds for disclosure are limited and the Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

2. Certain other Bermuda law considerations

The Company is designated as non-resident for exchange control purposes by the BMA. Pursuant to its non-resident status, the Company may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to non-Bermuda residents who are holders of its shares. The Company is required to obtain the permission of the BMA for the issue and transfer of all of its shares. BMA consent for the issue and transfer of the Common Shares to persons not resident in Bermuda for exchange control purposes is not required, provided that the Common Shares are admitted for trading on AIM.

The transfer and issue of the Common Shares to any resident in Bermuda for exchange control purposes may require specific prior approval under the Exchange Control Act 1972 (see further paragraph 5.2 of Part 9 – Additional Information). The Insurer's common shares cannot be transferred without the consent of the BMA.

In accordance with Bermuda law, share certificates are issued only in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust. The Company will take no notice of any trust applicable to any shares of its Common Shares whether or not the Company has notice of such trust.

The Company has been incorporated in Bermuda as an "exempted company". Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place in Bermuda. As a result, they are exempt from Bermuda laws restricting the percentage of share capital that may be held by non-Bermudians, but they may not participate in certain business transactions, including: (a) the acquisition or holding of land in Bermuda (except that required for their business and held by way of lease or tenancy for terms of not more than 50 years) without the express authorisation of the Bermuda legislature, (b) the taking of mortgages on land in Bermuda to secure an amount in excess of BD$50,000

without the consent of the Minister of Finance, (c) the acquisition of any bonds or debentures secured by any land in Bermuda, other than certain types of Bermuda government securities or (d) the carrying on of business of any kind in Bermuda, except in furtherance of their business carried on outside Bermuda or under licence granted by the Minister of Finance. An insurer is permitted to reinsure risks undertaken by any company incorporated in Bermuda and permitted to engage in the insurance and reinsurance business as an exempted company only if it obtains a special licence granted by the Minister of Finance to insure Bermuda domestic risks or risks of persons of, in or based in Bermuda subject to certain conditions. The Insurer intends to seek to obtain this special licence.

The Company must comply with the provisions of the Act regulating the payment of dividends and making distributions from contributed surplus. Under the Act, a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Under the Act, where a Bermuda company issues shares at a premium (that is for a price above the par value), whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares must be transferred to an account, called "the share premium account". The provisions of the Act relating to the reduction of the share capital of a company apply as if the share premium account were paid-up share capital of that company, except for certain matters such as premium arising on a particular class of shares may be used in paying up unissued shares of the same class to be issued to shareholders as fully paid bonus shares. The paid-up share capital may not be reduced if on the date the reduction is to be effected there are reasonable grounds for believing that the company is, or after the reduction would be, unable to pay its liabilities as they become due.

Exempted companies, such as the Company and the Insurer, must comply with Bermuda resident representation provisions under the Act. The Company does not believe that such compliance will result in any material expense to it.

Under Bermuda law, non-Bermudians (other than spouses of Bermudians or holders of permanent residency certificates) may not engage in any gainful occupation in Bermuda without an appropriate Bermuda government work permit. The Group's success may depend in part upon the continued services of key employees in Bermuda. Certain key employees may neither be a Bermudian, a spouse of a Bermudian nor an individual holding a permanent resident certificate. Accordingly, any such key employee will require specific approval to work for the Company and the Insurer in Bermuda. A work permit may be granted or extended upon showing that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or an individual holding a permanent resident certificate) is available who meets the minimum standards reasonably required by the employer. The Bermuda government recently announced a new policy that places a six year term limit on individuals with work permits, subject to certain exemptions for key employees (see also Part 3 – Risk Factors).

3. US insurance regulation

Upon commencement of operations, the Insurer will be licensed in Bermuda to write insurance and reinsurance and will not be admitted to do business in any jurisdiction in the US or in any country other than Bermuda. The insurance laws of each state of the US and of many other jurisdictions regulate the sale of insurance and reinsurance within their jurisdictions by non-admitted insurers and reinsurers, such as the Insurer. The Insurer intends, at the outset, to conduct its business so as not to be subject itself to the licensing requirements of insurance regulators in the US or elsewhere (other than Bermuda).

Many aspects of the activities of the Insurer will be similar to those employed by other non-admitted reinsurers that provide reinsurance to US and other cedants. Specifically, and in accordance with common practice, the transaction of reinsurance by non-admitted reinsurers is generally exempt from US regulation, except for the credit for reinsurance requirements discussed below. With respect to insurance business, the Insurer has applied for listing with the International Insurers Department of the National Association of Insurance Commissioners, which in this case will, if the application is approved, enable the Insurer to write surplus lines insurance in 18 states of the US. The Insurer also intends to submit individual applications for surplus lines eligibility in the remaining states, and in the meantime any insurance business in those states

will be written only in accordance with available statutory exemptions for non-admitted insurers. By virtue of the Insurer's projected status as an eligible or approved surplus lines insurer with the IID and in the various states, the Insurer will be required to maintain a US surplus lines trust fund (currently a minimum of US$5.4 million plus an amount equal to 30 per cent. of US surplus lines liabilities, subject to a cap of US$60 million) and make periodic financial and business disclosure filings, and to that extent the Insurer will be subject to limited regulatory oversight in the US in connection with its direct insurance activities. In common with other surplus lines insurers, the Insurer's rates and forms will not be regulated by any state.

It is nonetheless possible, however, that insurance regulators in the US or elsewhere may review the activities of the Insurer and claim that the Insurer is subject to such jurisdiction's licensing requirements, although the Company believes it unlikely under the circumstances, assuming the Insurer complies with applicable laws regarding non-admitted business in each jurisdiction. Having to meet such requirements, however, could materially and adversely affect the Insurer's results of operations. Alternatively, any necessary changes to operations could subject the Insurer to taxation in the US.

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers are subject to indirect regulatory requirements through the "credit for reinsurance" mechanism imposed by jurisdictions in which they are not licensed but where their cedants are licensed. A cedant which obtains reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the insurer files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the liability for unearned premiums and loss as well as adjustment expense reserves ceded to the reinsurer. In the US, many states allow credit for reinsurance ceded to a reinsurer that is domiciled and licensed in another state of the US and meets certain financial requirements. As a non-licensed and non-accredited reinsurer, the Insurer will have to post acceptable collateral as dictated by each state's credit for reinsurance laws and regulations (such as a letter of credit, trust or other acceptable security arrangement) in order for a cedant to be able to take credit for the reinsurance on its balance sheet.

4. UK insurance regulation

The Company intends, at the outset, that the Insurer will conduct its business so as not to be subject to insurance regulation in the UK. However, if it were determined that the Insurer is effecting or carrying out contracts of insurance (including contracts of reinsurance) in the UK, it would be required to be authorised and regulated by the FSA. If the Insurer effects or carries out such contracts without first having obtained FSA authorisation, it will commit a criminal offence. The Insurer and any officer of the Insurer who consented to or connived in the offence or whose negligence led to the offence would be liable to be proceeded against and if found guilty punished accordingly. Further, any contract made by the Insurer whilst not authorised by the FSA when it should have been will be unenforceable against the other party unless the relevant English court otherwise allows.

Insurers who are authorised by the FSA to carry on the business of effecting and carrying out contracts of insurance in the UK are required to provide information relating to their insurance and reinsurance arrangements to the FSA and insurers headquartered outside the European Union are required to maintain assets in the UK in accordance with the requirements of the FSA. The FSA has wide-ranging powers of intervention in relation to such insurers, which may be triggered if the FSA has a concern relating to such arrangements or the solvency of such insurers as a result of the receipt of such information or otherwise. Having to meet such requirements could materially and adversely affect the Insurer's results of operations. Authorisation in the UK is also likely to subject the Insurer to taxation in the UK.

The Company has established a UK subsidiary company, Lancashire Marketing, whose purpose will be to promote the Insurer to persons in the London market. The activities of this company will include insurance mediation activities for which authorisation is required from the FSA. Lancashire Marketing has been authorised by the FSA as an insurance intermediary, subject to the receipt of certain information, which Lancashire Marketing intends to submit to the FSA immediately following Admission. If, for any reason, Lancashire Marketing does not submit such information to the FSA or does not maintain its authorisation as an insurance intermediary, Lancashire Marketing's ability to promote the Insurer's business in the London insurance market is likely to be very significantly impaired, as such promotion would need to be done from Bermuda and/or by UK authorised insurance intermediaries which are not members of the Group.

PART 6

ACCOUNTANT'S REPORT AND FINANCIAL INFORMATION ON THE COMPANY

Accountant's report on the Company

ERNST & YOUNG

Ernst & Young LLP
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London SE1 2AF

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The Directors
Lancashire Holdings Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

13 December 2005

Dear Sirs

Lancashire Holdings Limited

We report on the financial information set out in Part 6 of the AIM admission document. This financial information has been prepared for inclusion in the AIM admission document dated 13 December 2005 of Lancashire Holdings Limited on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

The Directors of Lancashire Holdings Limited are responsible for preparing the financial information on the basis of preparation set out in note 3 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the AIM admission document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the UK. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the circumstances of Lancashire Holdings Limited (the "Company"), consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 13 December 2005, a true and fair view of the state of affairs of the Company as at the dates stated in accordance with the basis of preparation set out in note 3 to the financial information.

Declaration

We are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Ernst & Young LLP

Financial Information on the Company

The balance sheet of the Company as at 27 October 2005 is as follows:

		US$
Current assets		
Cash and investments		16,000,000
Debtors – unpaid share capital		–
Net Assets		16,000,000
Share capital and reserves		
Called up share capital	See note 4	1,600,000
Share premium		14,400,000
Shareholders' funds – equity		16,000,000

NOTES TO FINANCIAL INFORMATION

1. Responsibility

The Directors are responsible for the financial information set out below.

2. Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with IFRS.

The Company was incorporated on 12 October 2005. Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented. No financial statements have been drawn up.

3. Basis of preparation

The financial information set out above is based on the financial records of the Company, to which no adjustment was considered necessary.

4. Share capital

The Company was incorporated with authorised share capital of US$120,000 divided into 1,200,000 Common Shares of US$0.10 each. On incorporation, 120,000 common shares of US$0.10 each were issued, nil paid. Pursuant to a shareholder resolution and a directors' resolution, each duly adopted on 20 October 2005, the authorised share capital of the Company was increased from US$120,000 to US$1,500,000,000. On 27 October 2005, 16,000,000 common shares of US$0.10 each were issued fully paid and the original 120,000 common shares issued on incorporation were repurchased by the Company. On 9 December 2005 every five common shares in issue were consolidated into one Common Share of US$0.50.

5. Post balance sheet events

Since the balance sheet date, the Company has earned interest on the funds deposited and incurred expenses in connection with the placing of shares. The Company subscribed for shares in Lancashire Insurance Company Limited on 3 November 2005.

PART 7

ILLUSTRATIVE SUMMARY CONSOLIDATED FINANCIAL PROJECTIONS OF THE GROUP

PART A

1. Illustrative summary consolidated financial projections of the Group for the three years ending 31 December 2008

On the basis of the principal bases and assumptions set out below, the Illustrative Projections are as follows:

Currency: US$m	*FY06*	*FY07*	*FY08*
Gross premiums written	822.3	873.1	853.7
Ceded premiums written	(109.3)	(115.5)	(123.3)
Premiums written, net of outwards reinsurance	713.0	757.6	730.4
Gross premiums earned	509.7	857.7	856.5
Ceded premiums earned	(109.3)	(115.5)	(123.3)
Premiums earned, net of outwards reinsurance	400.4	742.2	733.2
Insurance claims and loss adjustment expenses	213.0	357.1	372.9
Insurance claims and loss adjustment expenses recovered	(27.4)	(32.0)	(34.9)
Net insurance claims and loss adjustment expenses	185.6	325.1	338.0
Expenses of acquisition of insurance contracts	70.8	130.0	131.1
Other underwriting expenses	34.1	34.0	34.9
Profit commission from reinsurers	(35.4)	(29.9)	(27.1)
Total underwriting expenses	69.5	134.1	138.9
Profit attributable to underwriting activities	**145.3**	**283.0**	**256.3**
Investment return	51.9	72.5	94.4
Finance costs	(11.6)	(11.2)	(10.8)
Profit before tax	**185.6**	**344.3**	**339.9**
Tax	(1.0)	(1.0)	(1.0)
Profit after tax	**184.6**	**343.3**	**338.9**

Note: the Illustrative Projections take into account the Directors' estimates of the maximum amount payable under the basic bonus plan and the expenses related to the granting of all Options and all Warrants. However, no account is taken of payments under the additional bonus plan.

Further information on the Options, bonus plans and Warrants is set out or referred to in paragraphs 16, 17 and 18 of Part 2 – Information on the Group.

2. Principal bases and assumptions

Neither the principal bases and assumptions nor the Illustrative Projections have been verified or audited by an independent accounting or actuarial firm or other third party.

The Illustrative Projections have been prepared on the following principal bases and assumptions:

- the completion of the Placing, Debt Financing and drawdown of US$30 million of senior debt occurring before 1 January 2006;
- business plan estimates of premiums, loss ratios and profitability were estimated by the Directors for financial years 2006 to 2008;

- the Illustrative Projections and their components are based on the Directors' estimates, taking into account their collective previous experience and their assessment of likely future developments;
- the Illustrative Projections have been prepared using accounting policies that are consistent with IFRS;
- premiums written (including an assessment of commission costs) have been estimated by the Directors based on anticipated premium income by class of business and the Directors' estimates of historical renewal patterns;
- premium income is assumed to be earned evenly over the period of risk of the policies written; reinsurance ceded is assumed to be earned over the same period on the basis that losses occurring during cover will be purchased;
- premiums and recoveries due to and from reinsurers have been recognised so as to match reinsurance transactions with the related gross premium and claim amounts;
- net claims incurred are derived from estimated net loss ratios which are based on the Directors' estimation of profitability by class of business taking into account the proposed underwriting team's historical track record in the respective classes and anticipated rate increases;
- administrative expenses are based on anticipated costs derived from a combination of known costs, indicative quotations and forecast expenses;
- the Warrants (details of which are set out in Part 8 – Summary of the Warrants) are assumed to vest in full. The Options (details of which are set out in paragraph 8 of Part 9 – Additional Information) are assumed to be granted in full over the three years ending 31 December 2008;
- the forecast investment return is based on the Directors' estimate of future investment yields applied to average funds expected to be available for investment;
- a stochastic business planning model has been constructed to generate an indicative range (or distribution) of results around the Group's business plan. The model has been calibrated to generate a distribution of results (on a mean basis) around the Directors' business plan estimates; and
- the modelled volatility is based upon the following:
  - various qualitative estimates supplied by the Directors;
  - the Directors' estimates of market loss activity for natural peril losses based upon data provided by RMS supplemented by subjective load factors, estimated market shares and estimated return periods by natural peril; and
  - historic market large losses for marine and energy business adjusted by applying the Directors' estimates of market shares and miss factors.

The Directors confirm that the Illustrative Projections contained in this document have been made after due and careful enquiry.

No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of, and no representation or warranty should be inferred from, the Illustrative Projections in this document or the assumptions underlying them or their suitability. No representation or warranty is or can be made as to the future operations or the amount of any future income or loss of the Group.

Any forward-looking statements, including the Illustrative Projections contained herein, involve risks and uncertainties about future events and circumstances (many of which are not within the Group's control) and other factors that may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Many risks and uncertainties affect the weight that should be accorded to forward-looking statements, including projections. No representation or warranty is or can be made as to the future operations or the amount of any future income or loss of the Group. Some assumptions on which the

Illustrative Projections are based will not materialise, and unanticipated events and circumstances will occur. Therefore, the actual results achieved during the projection period will vary from the Illustrative Projections, and the variations may be material. Prospective investors in the Common Shares are cautioned not to place reliance on the Illustrative Projections. The Group's actual results will differ and could differ materially and adversely from those anticipated in forward-looking statements, including the Illustrative Projections, as a result of various factors, including all the risks discussed in Part 3 – Risk Factors and elsewhere in this document and, therefore, undue reliance should not be placed on them.

The principal risks and uncertainties underlying the Illustrative Projections, which may cause actual results to differ are as follows:

- the Group's ability to implement its business strategy;
- projected pricing, including the extent of estimated pricing increases and improvement in terms and conditions as a result of hurricanes Katrina, Rita and Wilma;
- past industry experience, on which the Directors' estimates of losses and claim settlements are based, may not be a reliable indicator of future developments;
- projected capacity of those insurance classes to be targeted by the Group (including with respect to existing and potential future market entrants);
- the extent of changes in governmental, regulatory or legislative controls or policies affecting activities or claims experience;
- the Group's ability to establish and maintain strong relationships with intermediaries;
- the Insurer's ability to maintain an acceptable financial strength rating from a third party credit rating agency including in the event of changes in the capital requirements imposed by such agencies on classes targeted by the Insurer;
- the Directors' assessment of the level and structure of reinsurance cover appropriate at the time such cover is sought, in light of capacity, pricing and terms and conditions and the actual portfolio of risks assumed;
- the creditworthiness of the Group's reinsurance providers;
- interest rates, including on any senior or subordinated debt of the Group;
- average brokerage and other acquisition costs;
- estimated start up and ongoing operating expenses;
- the level of income and excise taxes and the extent to which the Group's ability to write future business through Bermuda or other similarly tax-efficient jurisdictions and that such jurisdictions will continue to remain tax-efficient;
- investment results; and
- the Group's ability to identify, hire and retain appropriately qualified management and other key personnel.

PART B

Global Markets & Investment Banking Group

The Directors
Lancashire Holdings Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

13 December 2005

Dear Sirs

Lancashire Holdings Limited

We refer to the illustrative summary consolidated financial projections of Lancashire Holdings Limited (the "**Company**") and its subsidiary undertakings for the three years ending 31 December 2008 (the "**Illustrative Financial Projections**"), as set out in Part 7 of the Admission Document dated 13 December 2005 (the "**Admission Document**"). The Directors of the Company are solely responsible for the Illustrative Financial Projections.

We have discussed with you the Illustrative Financial Projections and the principal bases and assumptions on which these projections have been made.

Based on these discussions, we are satisfied that the Illustrative Financial Projections (for which you, as Directors, are solely responsible) have been made after due and careful enquiry by the Directors of the Company. This letter is being delivered to you pursuant to paragraph (d)(iii) of Schedule Two of the AIM Rules and may be included in the Admission Document solely for the purpose of that paragraph. For the purposes of US securities laws, it should not be read to imply that we are "experts", that we have participated or otherwise been involved in the preparation of the Illustrative Financial Projections or that the Illustrative Financial Projections are directly attributable to us.

Yours faithfully

Simon Fraser

For and on behalf of
Merrill Lynch International

Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

PART 8

SUMMARY OF THE WARRANTS

Introduction

The Initial Founders will receive, at, and subject to, Admission, Warrants, in the aggregate, to purchase 7 per cent. of the Fully Diluted Common Share Capital exercisable at the exercise price per Common Share of US$5.00, as adjusted in the circumstances summarised below under the heading "Terms of Warrants" (the "Initial Founder Warrants"); and all such Warrants shall be fully vested and exercisable upon issuance.

Benfield will receive, at, and subject to, Admission, Warrants, in aggregate, to purchase 3 per cent. of the Fully Diluted Common Share Capital, exercisable at the exercise price of US$5.00 per Common Share, as adjusted in the circumstances summarised below under the heading "Terms of Warrants" (the "Benfield Warrants"); and all such Warrants shall be fully vested and exercisable upon issuance.

Warrants to purchase, in the aggregate, 5 per cent. of the Fully Diluted Common Share Capital, exercisable at the exercise price of US$5.00 per Common Share, as adjusted in the circumstances summarised below under the heading "Terms of Warrants" (the "Management Team Ordinary Warrants") will, subject to Admission, be either issued to members of the Management Team or other employees of the Group at Admission or reserved for later issuance to employees of the Group. Of such 5 per cent., Management Team Ordinary Warrants over approximately 3.94 per cent. will be issued at, and subject to, Admission. Richard Brindle will be entitled to 60 per cent. of the Management Team Ordinary Warrants over the 5 per cent. of the Fully Diluted Share Capital. Other than as described below in relation to Management Team Ordinary Warrants, 25 per cent. of such Warrants shall vest immediately upon issuance; thereafter 25 per cent. of such Warrants shall vest on the first, second and third anniversary dates of Admission. Accelerated vesting shall occur so that all Management Team Ordinary Warrants issued to Richard Brindle will vest immediately upon (a) a change of control of the Company; or (b) Richard Brindle being dismissed (other than for wilful misconduct) as a director or employee of any Group company. Please refer to paragraph 6.1 of Part A of this Part 8 – Summary of the Warrants for a summary of terms specific to the Management Team Ordinary Warrants held by Richard Brindle. Accelerated vesting shall occur so that all Management Team Ordinary Warrants issued to Group employees other than Richard Brindle will vest upon a change of control of the Company and their dismissal (other than for wilful misconduct) following such change of control. Please refer to paragraph 6.2 of Part A of this Part 8 – Summary of the Warrants for a summary of terms specific to the Management Team Ordinary Warrants issued to Group employees other than Richard Brindle.

Further Warrants to purchase, in the aggregate, up to a further 3 per cent. of the Fully Diluted Common Share Capital exercisable at the exercise price of US$5.00 per Common Share (as adjusted in the circumstances summarised below under the heading "Terms of Warrants"), subject to performance and vesting criteria (the "Management Team Performance Warrants") will, subject to Admission, be either issued to members of the Management Team or other employees of the Group at Admission or reserved for later issuance to employees of the Group. Of such 3 per cent., Management Team Performance Warrants over approximately 1.76 per cent. will be issued at, and subject to Admission. Richard Brindle will be entitled to 40 per cent. of the Management Team Performance Warrants over the 3 per cent. of the Fully Diluted Share Capital. Please refer to Part B of this Part 8 – Summary of the Warrants for a summary of the performance and vesting criteria applicable to the Management Team Performance Warrants.

In the event that, following issue of the Warrants and Admission, the Fully Diluted Common Share Capital shall increase due to Common Shares being issued and allotted to, or at the direction of, Merrill Lynch as stabilising manager pursuant to any over-allotment option, the Company will issue further Warrants to the Initial Founders, Benfield and the relevant Group employees to ensure they receive, in aggregate, Warrants over those percentages of the Fully Diluted Common Share Capital as are described in this document.

The Warrants will expire on the tenth anniversary of the date of issuance, unless previously exercised, and shall be of a single class for all purposes, subject to the vesting and performance criteria of the Warrants issued to the Management Team as provided above. The Warrants contain customary anti-dilution provisions

(including in respect of dividends). The Warrants will be exercisable in whole or in part. Exercise of the Warrants may be permitted on a cashless basis, subject to Bermuda law, at the option of the relevant Warrant holders, in which case the Company shall, at its option in its sole discretion, either issue the relevant number of Common Shares or deliver the cash equivalent of such shares, as determined in the relevant Warrants. The exercise price and number of such shares for each Warrant will be subject to adjustment in respect of dilution events, including the payment by the Company of dividends, any amalgamation, reorganisation, reclassification, consolidation, merger or sale of all or substantially all of the Company's assets and other dilutive events for which a failure to make any adjustments would not fully protect the purchase rights represented by the Warrants. The Warrants are transferable following vesting.

The Management Team Ordinary Warrants and Management Team Performance Warrants do not contain certain provisions which are included in the current guidelines on executive remuneration established by the Association of British Insurers and the Combined Code. In particular the Management Team Ordinary Warrants do not contain the following provisions: a requirement that the vesting of the Management Team Ordinary Warrants should be subject to the satisfaction of performance criteria and related requirements for the performance conditions including what happens on a change of control or in relation to early leavers; a requirement that the Management Team Ordinary Warrants should have a vesting period of at least three years; a requirement that the vesting of Management Team Ordinary Warrants should be on a *pro rata* basis depending on what period of the vesting period has expired before the change of control; a requirement that the vesting of Management Team Ordinary Warrants should be on a *pro rata* basis depending on what period of the vesting period has expired before early exercise on retirement. Similarly, the Management Team Performance Options do not contain, in particular, the following provisions: a requirement that the Management Team Performance Warrants should have a vesting period of at least three years; a requirement that the vesting of Management Team Performance Warrants should be on a *pro rata* basis depending on what period of the vesting period has expired before the change of control; a requirement that the vesting of Management Team Performance Warrants should be on a *pro rata* basis depending on what period of the vesting period has expired before early exercise on retirement. The attention of prospective investors is also drawn to the fact that both the Management Team Ordinary Warrants and the Management Team Performance Warrants are freely transferable once vested.

A Terms of Warrants

1. *Definitions*

In relation to the summary of the terms of the Warrants below references to persons include individuals, bodies corporate (wherever incorporated), unincorporated associations, funds and partnerships and the following terms and expressions have the following meanings:

"Affiliate" means, with respect to any specified person, a person that directly or indirectly Controls, is Controlled by or is under common Control with such person. Without limiting the generality of the foregoing, the term "'Affiliate" includes an investment fund managed by such person or by a person that directly or indirectly Controls, is Controlled by or is under common Control with such person.

"Anti-Dilution Provisions" means the provisions set out in paragraph 3 (below).

"Assets" means any stock, securities, cash (or cash equivalents) or other property whatsoever.

"Business Day" means any day when banks are ordinarily open for business in each of New York, Bermuda and London.

"Control" means any person, or persons together acting in concert (as such term is defined and construed by the Takeover Code, notwithstanding that the Takeover Code does not apply to the Company), obtaining 50 per cent. or more of the voting rights normally attributable to the equity share capital whether obtained by way of acquisition, merger, share offering or other agreement or document or otherwise obtaining the power (howsoever achieved) to direct or cause the direction of the management and policies of another person; and "Controlling" and "Controlled" shall have meanings correlative to the foregoing.

"Exercise Price" means a price per Common Share equal to US$5.00, as adjusted from time to time in the circumstances summarised in paragraph 3 (below) but at no time shall the Exercise Price be less than the then current par value of any Common Share to be issued pursuant to the Warrant.

"Exchange Rate" means the mean of the spot rate for the purchase of US$ (dollars) in the relevant currency at the close of business on the five Business Days immediately prior to the date of any calculation.

"Group" means the Company and any holding company it may have and any subsidiary companies or undertakings of the Company or any such holding company from time to time.

"Investment Bank" means an independent internationally-recognised investment banking firm selected by the Independent Directors with the consent of the holders of a majority in interest of all outstanding warrants to purchase Common Shares containing this provision (which consent shall not be unreasonably withheld), the fees and expenses of which shall be shared equally by the Company on the one hand and such holders on the other.

"Time Value" means such an amount as will preserve the rights of the Warrant Holder by providing just and equitable compensation in respect of the time value in the Warrant from the date of any transaction to which paragraph 3.1.4(a) below applies to the Expiration Date (as defined in paragraph 2.2 below) of the Warrant as the same shall be determined by an independent Investment Bank.

"Voting Common Stock" means, in relation to any issuer, (i) voting equity securities of such issuer having no preference as to dividends or in a liquidation over any other securities of such issuer or (ii) securities convertible into or exchangeable for the voting securities described in clause (i).

"Warrant Certificate", in the case of a Warrant Holder, means the certificate containing the terms and conditions of the relevant Warrants and pursuant to which the relevant Warrants are granted to such Warrant Holder.

"Warrant Holder" means holder of the Warrant.

"Warrant Shares" mean the Company's Common Shares over which the Warrants are granted.

"Wilful Misconduct" means conduct amounting to a material breach of the individual's employment contract with the Company or any of its subsidiaries or subsidiary undertakings following a written warning to remedy such breach in the prior six months for conduct amounting to the same (provided always that such prior written warning shall not be necessary in relation to a material breach of the individual's employment contract which is incapable of remedy).

2. ***Terms of the Warrants***

2.1 The Warrants are, subject to the provisions summarised below, for the purchase of the Warrant Shares at the Exercise Price.

2.2 The Warrants, subject to paragraphs 2.3 and 2.4 below, become effective upon Admission and expire on the tenth anniversary of the date of the relevant Warrant Certificate (the "Expiration Date").

2.3 Management Team Ordinary Warrants are subject to vesting criteria. A summary of the terms specific to the Management Team Ordinary Warrants is contained at paragraph 6 of Part A of this Part 8 – Summary of the Warrants.

2.4 Management Team Performance Warrants are subject to vesting criteria. A summary of the terms specific to the Management Team Performance Warrants is contained at Part B of this Part 8 – Summary of the Warrants.

2.5 There will be no adjustment to the Warrants or Warrant Shares (whether in relation to the number of Warrant Shares or the Exercise Price) as a result of the issue of any Common Shares (or creation of rights over the same) at the Placing and Admission.

3. ***Anti-dilution provisions***

3.1 In order to prevent dilution of the purchase rights granted under the Warrants, the Exercise Price shall be subject to adjustment from time to time summarised as follows, provided, however, that under no

circumstances will the Exercise Price be less than the then current par value of any Common Share to be issued under the relevant Warrant Certificate:

3.1.1 *Subdivision or consolidation/combination of Common Shares*

If the Company, at any time while the Warrants are outstanding, (a) shall pay a stock or bonus share dividend on its Common Shares or pay any other distribution in Common Shares, (b) subdivide the class of Common Shares into a larger number of shares or (c) consolidate/ combine the class of Common Shares into a smaller number of shares then the Exercise Price thereafter shall be determined by multiplying the Exercise Price by a fraction the numerator of which shall be the number of Common Shares (excluding any Common Shares held on trust for the benefit of the Company, if any) in issue before such event and the denominator of which shall be the number of Common Shares (excluding any Common Shares held on trust for the benefit of the Company, if any) in issue after such event. Any adjustment made according to the procedure summarised in this paragraph 3.1.1 becomes effective immediately after the record date for the determination of shareholders entitled to receive such dividend or distribution and becomes effective immediately after the effective date in the case of a subdivision or combination.

3.1.2 *Issuance of additional Common Shares*

If the Company issues or sells additional Common Shares, other than any issuance of the type summarised in paragraph 3.1.1 above, without consideration or for a consideration per Common Share less than the Fair Market Value (as defined in paragraph 3.2.1 below) of the Common Shares on the day immediately prior to such issue or sale, then, and in each such case, subject to the provisions summarised in paragraph 3.2.1 below, the Exercise Price will be reduced, concurrently with such issue or sale, to a price determined by multiplying such Exercise Price by a fraction:

(a) the numerator of which is (i) the number of Common Shares issued immediately prior to such issue or sale plus (ii) the number of Common Shares which the aggregate consideration received by the Company for the total number of such additional Common Shares so issued or sold would purchase at such Fair Market Value of the Common Shares; and

(b) the denominator of which is the number of Common Shares in issue immediately after such issue or sale;

provided, that for the purposes of this procedure, any Common Shares held on trust for the benefit of the Company shall not be deemed to be in issue, provided, further, that, notwithstanding the above, the provisions summarised in this paragraph 3.1.2 shall not be applicable to, and no adjustment to the Exercise Price shall be made with respect to, any issue of Common Shares of the Company (i) at the time of the initial public offering of Common Shares and Admission, (ii) in any secondary or follow on offerings of Common Shares (whether or not underwritten) whilst the Company is listed or admitted to trading on any investment or stock exchange (provided that the transaction is not carried out at more than a 10 per cent. discount to the Fair Market Value of the Common Shares), and (iii) in connection with any acquisitions.

3.1.3 *Dividends and distributions*

(a) In relation to the Initial Founder Warrants and the Benfield Warrants only, if the Company at any time or from time to time after the date of the Warrant Certificate declares, orders, pays or makes a dividend or other distribution of Assets by way of dividend or spin-off, reclassification, recapitalisation or similar corporate rearrangement on the Common Shares, other than a dividend payable in additional Common Shares (to which the provisions of paragraph 3.1.1(a) above shall apply), then, and in each such case, the Company will make the same dividend or distribution to the relevant Warrant Holders as it makes to holders of Common Shares *pro rata* based on the number of Warrant Shares for which such Warrants are then exercisable, and the Exercise Price shall not be adjusted in respect thereof.

(b) In relation to the Management Team Ordinary Warrants and the Management Team Performance Warrants only, if the Company at any time or from time to time after the date of the Warrant Certificate shall declare, order, pay or make a dividend or other distribution of Assets by way of dividend or spin-off, reclassification, recapitalisation or similar corporate rearrangement on the Common Shares, other than a dividend payable in additional Common Shares (to which the provisions of paragraph 3.1.1(a) above shall apply), then, and in each such case, (i) the Company will make the same dividend or distribution to the relevant Warrant Holders as it makes to holders of Common Shares *pro rata* based on the number of Warrant Shares for which such Warrants are then exercisable (and have become vested in accordance with any time, performance or other criteria), and the Exercise Price shall not be adjusted in respect thereof, and (ii) the Exercise Price of each Warrant Share that has not become exercisable (and has not vested in accordance with any time, performance, or other criteria) under the terms of this Warrant at the time of such dividend or other distribution will be adjusted by way of a deduction from such Exercise Price of an amount equal to the value determined according to the provisions summarised in paragraph 3.2.1 below per Common Share of any such dividend or other distribution.

3.1.4 *Consolidation, merger, etc*

(a) Adjustments for consolidation, merger, sale of assets, reorganisation, etc

If the Company after the date of the relevant Warrant Certificate (i) consolidates or amalgamates with or merges into any other Person (as hereinafter defined) and shall not be the continuing or surviving corporation of such consolidation, amalgamation or merger, (ii) permits any other Person to consolidate or amalgamate with or merge into the Company and the Company is the continuing or surviving Person but, in connection with such consolidation, amalgamation or merger, the Common Shares shall be changed into or exchanged for Assets of any other Person, (iii) transfers all or substantially all of its Assets to any other Person, (iv) effects a capital reorganisation or reclassification of the Common Shares (other than a capital reorganisation or reclassification resulting in an adjustment to the Exercise Price as summarised in another paragraph of this paragraph 3), or (v) effects any other transaction in which the Common Shares are changed into or exchanged for Assets of any other Person, then, in the case of each such transaction, proper provision shall be made so that, upon the basis and the terms and in the manner provided in the Warrant Certificate, the Warrant Holder, upon the exercise at any time after the consummation of such transaction, shall be entitled to receive (at the aggregate Exercise Price in effect at the time of such consummation for all Common Shares issuable upon such exercise immediately prior to such consummation), in lieu of the Common Shares issuable upon such exercise prior to such consummation, the amount of Assets to which such holder would actually have been entitled as a shareholder upon such consummation if such holder had exercised the rights represented by the Warrant immediately prior thereto together with an amount equal to the Time Value in respect of any such Assets which are not Voting Common Stock. "Person" means an individual, company, corporation, limited liabililty company, firm, partnership, trust, estate, unincorporated association or other entity.

(b) Assumption of obligations

Notwithstanding anything contained in this summary of the Warrants to the contrary, the Company will not effect any of the transactions described in (i) through (v) of the preceding paragraph 3.1.4(a) above unless, prior to the consummation thereof, each Person which may be required to deliver any Assets upon the exercise of the Warrants, shall assume, by written instrument delivered to, and reasonably satisfactory to, the holder of the Warrant the obligations of the Company under the Warrant Certificate (and if the Company survives the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under the Warrant Certificate). The provisions summarised in this paragraph 3.1.4 shall not be deemed to

authorise the Company to enter into any transaction not otherwise permitted by the Bye-laws.

3.2 Other provisions applicable to adjustments

The following provisions are applicable to the making of adjustments to the number of Warrant Shares for which the relevant Warrant Certificate is exercisable.

3.2.1 *Computation of the value of Assets and Fair Market Value for purposes of the anti-dilution provisions*

To the extent that it shall be necesssary to value any Assets pursuant to the Warrant then, unless expressly stated otherwise, the value of such Assets shall be determined by mutual agreement of the Independent Directors and the holders of a majority in interest of all outstanding Warrants to purchase Common Shares containing this provision, or, if they shall fail to agree, by an Investment Bank. To the extent that the Assets comprise cash then the value of such cash, if expressed in a currency other than US$ shall be calculated in accordance with paragraph 5 below. The "Fair Market Value" of the Common Shares at any given time shall mean (a) if the Common Shares are listed on a securities exchange (or quoted in a securities quotation system), the mean closing sale price of the Common Shares on such exchange (or in such quotation system), or, if the Common Shares are listed on (or quoted in) more than one exchange (or quotation system), the mean closing sale price of the Common Shares on the principal securities exchange (or quotation system) on which the Common Shares are then traded, or, if the Common Shares are not then listed on a securities exchange (or quotation system) but are traded in the over-the-counter market, the mean of the latest bid and asked quotations for the Common Shares in such market, in each case for the last five trading days immediately preceding the day on which such Fair Market Value is determined in accordance with the applicable provisions summarised in this paragraph 3; or (b) if no such closing sales prices or quotations are available because such shares are not publicly traded or otherwise, the fair value of such shares as determined by mutual agreement of the Independent Directors and the holders of a majority in interest of all outstanding Warrants to purchase Common Shares containing this provision, or, if they shall fail to agree within 14 days (or a further period on written agreement of all such parties), by an Investment Bank. The term "Independent Director" means each member of the Board that is not (x) a director, officer or employee of any Warrant Holder or any affiliate of any Warrant Holder, (y) the holder of a 10 per cent. or greater equity interest in any Warrant Holder or any affiliate of any Warrant Holder or (z) a member of the immediate family of any director, officer or employee of any Warrant Holder or any holder of a 10 per cent. or greater equity interest in any such Warrant Holder or any affiliate of any Warrant Holder.

3.2.2 *When adjustment to be made*

The adjustments stated in this paragraph 3 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that any adjustment of the number of Common Shares for which the relevant Warrant Certificate is exercisable that would otherwise be required may be postponed (except in the case of a subdivision or combination of shares of the Common Shares, as described in paragraph 3.1.1 above) up to but not beyond the Expiration Date if such adjustment either by itself or with other adjustments not previously made adds or subtracts less than 1 per cent. of the Warrant Shares immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) which is postponed shall be carried forward and made as soon as such adjustment, together with other adjustments required as described in this paragraph 3 and not previously made, would result in a minimum adjustment or on the date of exercise. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

3.2.3 *Fractional interest; rounding*

In computing adjustments as summarised in this paragraph 3, fractional interests in Common Shares shall be taken into account to the nearest one-tenth of a share, and adjustments in the Exercise Price shall be made to the nearest US$0.01.

3.2.4 *Certain exclusions*

No adjustment in the number of Common Shares purchasable under the Warrant or the Exercise Price therefor shall be made as a result of (x) any adjustment in the number of Common Shares purchasable under any other warrant or the exercise price thereunder, or (y) for the issuance of any employee stock options or any Common Shares issuable under employee stock options, employee stock purchase plans, or any other form of equity based compensation granted to employees of the Company.

3.2.5 *Computation of consideration*

For the purposes of this paragraph 3:

(a) the consideration for the issue or sale of any additional Common Shares shall, irrespective of the accounting treatment of such consideration,

(i) insofar as it consists of cash, be computed at the net amount of cash received by the Company;

(ii) insofar as it consists of property (including securities) other than cash, be computed at the fair value thereof at the time of such issue or sale, as determined by mutual agreement of the Independent Directors and the holders of a majority in interest of all outstanding Warrants to purchase Common Shares containing adjustment provisions of like tenor to the applicable adjustment provision contained in the relevant Warrant Certificate, or, if they shall fail to agree within 14 days (or a further period on written agreement of all such parties), by an Investment Bank; and

(iii) in case additional Common Shares are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be the portion of such consideration so received, computed as described in paragraphs 3.2.5(a)(i) and 3.2.5(a)(ii) above, attributable to such additional Common Shares, all as determined in good faith by mutual agreement of the Independent Directors and the holders of a majority in interest of all outstanding Warrants to purchase Common Shares containing adjustment provisions of like tenor to the applicable adjustment provision contained in the Warrant, or, if they shall fail to agree within 14 days (or a further period on written agreement of all such parties), by an Investment Bank.

(b) additional Common Shares deemed, pursuant to the provisions summarised in paragraph 3.3 below, to have been issued, relating to Options and Convertible Securities, shall be deemed to have been issued for a consideration per share determined by dividing:

(i) the total amount, if any, received and receivable by the Company as consideration for the issue, sale, grant or assumption of the Options (as defined in paragraph 3.3 of this Part 8 – Summary of the Warrants) or Convertible Securities (as defined below) in question, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration to protect against dilution) payable to the Company upon the exercise in full of such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, in each case computing such consideration as described in paragraph 3.2.5(a) above; by

(ii) the maximum number of Common Shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities; and

(iii) additional Common Shares deemed to have been issued in the circumstances described in paragraph 3.1.1 above, relating to stock dividends, stock splits, etc., shall be deemed to have been issued for no consideration.

3.3 Treatment of Options and Convertible Securities

In case the Company at any time or from time to time after the date hereof shall issue, sell, grant or assume, or shall fix a record date for the determination of holders of any class of securities of the Company other than the Common Shares entitled to receive, any (x) options, warrants or other rights to purchase Common Shares (other than options or warrants granted to employees) or Convertible Securities (as defined below) ("Options", for the purposes of this Part 8 – Summary of the Warrants) or (y) securities convertible into or exchangeable for Common Shares ("Convertible Securities"), then, and in each such case, the maximum number of additional Common Shares (as set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed for purposes of the provisions described in paragraph 3.1.2 above to be additional Common Shares issued as of the time of such issue, sale, grant or assumption or, in case such a record date shall have been fixed, as of the close of business on such record date (or, if the Common Shares trade on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading); provided, that such additional Common Shares shall not be deemed to have been issued unless the consideration per share (determined pursuant to the procedure described in paragraph 3.2.5 above) would be less than the Fair Market Value on the date immediately prior to such issue, sale, grant or assumption or immediately prior to the close of business on such record date (or, if the Common Shares trade on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), as the case may be, and provided, further, that in any such case in which additional Common Shares are deemed to be issued:

3.3.1 no further adjustment of the Exercise Price shall be made upon the subsequent issue or sale of Convertible Securities or Common Shares upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

3.3.2 if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Company, or decrease or increase in the number of additional Common Shares issuable, upon the exercise, conversion or exchange thereof (by change of rate or otherwise), the Exercise Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, which are outstanding at such time;

3.3.3 upon the expiration (or purchase by the Company and cancellation or retirement) of any such Options which shall not have been exercised or the expiration of any rights of conversion or exchange under any such Convertible Securities which (or purchase by the Company and cancellation or retirement of any such Convertible Securities the rights of conversion or exchange under which) shall not have been exercised, the Exercise Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(a) in the case of Options for Common Shares or Convertible Securities, the only additional Common Shares issued or sold were the additional Common Shares, if any, actually issued or sold upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was (i) an amount equal to (1) the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus (2) the consideration actually received by the Company upon such exercise, minus (3) the consideration paid by the Company for any purchase of such Options which were not exercised; or (ii) an amount equal to (1) the consideration actually received by the Company for the issue or sale of all such Convertible Securities which were actually converted or exchanged, plus (2) the additional consideration, if any, actually received by the Company upon such conversion or exchange, minus (3) the consideration paid by the Company for any purchase of such Convertible Securities the rights of conversion or exchange under which were not exercised; and

(b) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue, sale, grant or assumption of such Options, and the consideration received by the Company for the additional Common Shares deemed to have then been issued was an amount equal to (i) the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus (ii) the consideration deemed to have been received by the Company (pursuant to the procedure described in paragraph 3.2.5 above) upon the issue or sale of such Convertible Securities with respect to which such Options were actually exercised, minus (iii) the consideration paid by the Company for any purchase of such Options which were not exercised;

3.3.4 no readjustment pursuant to the provisions summarised in paragraph 3.3.2 or 3.3.3 above shall have the effect of increasing the Exercise Price by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant or assumption of such Options or Convertible Securities; and

3.3.5 in the case of any such Options which expire by their terms not more than 30 days after the date of issue, sale, grant or assumption thereof, no adjustment of the Exercise Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in the provisions summarised in paragraph 3.3.3 above.

3.4 Adjustment in number of Warrant Shares

Upon each adjustment of the Exercise Price pursuant to the provisions summarised in paragraph 3.1.1 or 3.1.2 above, the number of Common Shares for which the Warrant is exercisable shall be adjusted by multiplying the number of Common Shares for which the Warrant was exercisable prior to such adjustment by a fraction (i) whose numerator is the Exercise Price in effect immediately prior to such adjustment; and (ii) whose denominator is the Exercise Price in effect immediately after such adjustment.

3.5 Other dilutive events

If any event shall occur as to which the provisions summarised in this paragraph 3 are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by the Warrant Certificate in accordance with the essential intent and principles of such paragraphs, then, in each such case, the Independent Directors of the Company shall appoint an Investment Bank, which shall give its opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles summarised in this paragraph 3, necessary to preserve, without dilution, the purchase rights represented by the Warrant Certificate. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the Warrant Holder and shall make the adjustments described therein.

3.6 Notices

Immediately upon any adjustment of the Exercise Price, the Company shall give, or cause to be given, written notice thereof, executed by the Chief Financial Officer (or, if none, the Chief Executive Officer or President) of the Company, to the Warrant Holder, setting forth in reasonable detail and certifying the event requiring the adjustment, the method by which the adjustment was calculated, the number of Warrant Shares for which the Warrant is exercisable and the Exercise Price after giving effect to such adjustment. The Company shall keep at its registered office copies of all such written notices and cause the same to be available for inspection during normal business hours by the Warrant Holder. The Company shall give, or cause to be given, written notice to the Warrant Holder at least 20 days prior to the date on which the Company closes its books or takes a record (i) with respect to any dividend or distribution upon Common Shares; (ii) with respect to any *pro rata* subscription offer to holders of Common Shares; or (iii) for determining rights to vote with respect to any transaction described in paragraph 3.1.4 above, dissolution or liquidation. The Company shall also give, or cause to be given, written notice to the Warrant Holder at least 20 days prior to the date on which any transaction described in paragraph 3.1.4 above shall take place.

4. ***Warrant transfer restrictions***

Subject to the transfer conditions referred to in the legend endorsed on the Warrant Certificates, the relevant Warrants and all rights pertaining to them are transferable in whole or in part, without charge to the Warrant Holder, once vested and upon surrender of the relevant Warrant Certificate with a properly executed assignment at the registered office of the Company. No transfer may be made in violation of any provision of the Bye-laws or without BMA approval (as may be required).

5. ***Currency Conversion***

Where pursuant to the provisions of the Warrant the context requires a currency to be converted into US$ (whether due to the fact that the Common Shares are listed, quoted or admitted to trading on any securities exchange, quotation system or other trading platform in a currency other than US$ or otherwise) such conversion shall be carried out at the Exchange Rate.

6. ***Summary of terms of Management Team Ordinary Warrants***

6.1 *Summary of terms specific to the Management Team Ordinary Warrants held by Richard Brindle*

6.1.1 For the purposes of this paragraph 6.1, which is a summary of additional terms applicable to the Management Team Ordinary Warrants held by Richard Brindle, the following expressions have the following meanings:

"Acceleration Event" means (i) a change of control of the Company at any time after Admission or (ii) Dismissal;

"Dismissal" means, in relation to Richard Brindle: (i) his dismissal (actual or constructive) as an employee of the Company; (ii) his removal from the office of director of the Company and/or any of its subsidiaries or subsidiary undertakings from time to time; or (iii) the termination by the Company of the service agreement between Richard Brindle with the Company and/or any of its subsidiaries or subsidiary undertakings from time to time (as amended from time to time or any service agreement entered into in succession or replacement for such service agreement from time to time), in each case for any reason other than for Wilful Misconduct;

6.1.2 Subject to paragraph 6.1.3 below the Warrant Shares to which this Warrant relates will vest as follows: one-quarter will be vested immediately upon Admission, a further one-quarter will vest on the first anniversary of Admission, a further one-quarter will vest on the second anniversary of Admission and a final one-quarter will vest on the third anniversary of Admission, provided always that the Warrant Holder shall remain employed by the Company or a member of the Group at the relevant vesting date save where the Warrant Holder shall have been dismissed from such employment for reasons other than Wilful Misconduct.

6.1.3 Upon an Acceleration Event all the Warrant Shares to which the Warrant relates shall vest immediately.

6.2 Summary of terms specific to the Management Team Ordinary Warrants for employees other than Richard Brindle

6.2.1 For the purposes of this paragraph 6.2, which is a summary of additional terms applicable to the Management Team Ordinary Warrants for employees other than Richard Brindle, the following expressions have the following meanings:

"Acceleration Event" means a change of control of the Company at any time after Admission and the Dismissal of the Warrant Holder following such change of control;

"Dismissal" means, in relation to the Warrant Holder: (i) his dismissal (actual or constructive) as an employee of the Company and/or any of its subsidiaries or subsidiary undertakings; or (ii) the termination by the Company of the service agreement between the Warrant Holder and the Company and/or any of its subsidiaries or subsidiary undertakings from time to time (as amended from time to time or any service agreement entered into in succession or replacement for such service agreement from time to time), in each case for any reason other than for Wilful Misconduct;

6.2.2 Subject to paragraph 6.2.3 the Warrant Shares to which the Warrants relate will vest as follows: one-quarter will vest immediately upon Admission, a further one-quarter will vest on the first anniversary of Admission, a further one-quarter will vest on the second anniversary of Admission and a final one-quarter will vest on the third anniversary of Admission, provided always that the Warrant Holder shall remain employed by the Company or a member of the Group at the relevant vesting date save where the Warrant Holder shall have been dismissed from such employment for reasons other than Wilful Misconduct.

6.2.3 Upon an Acceleration Event all the Warrant Shares to which the Warrants relate shall vest immediately.

B Additional terms applicable to the Management Team Performance Warrants

For the purposes of this Part B of Part 8 – Summary of the Warrants, which is a summary of the additional terms applicable to the Management Team Performance Warrants, the following expressions have the following meanings:

"**2009 Planned Appreciation Threshold Figure**" means such figure as shall be determined by the Remuneration Committee of the Company in accordance with the provisions of paragraph 1.5 of this Part B of Part 8 – Summary of the Warrants;

"**Book Value Performance Shares**" means such number of Warrant Shares as shall represent fifty per cent. of the Warrant Shares to which the Warrants relate;

"**Compound Return Performance Shares**" means such number of Warrant Shares as shall represent fifty per cent. of the Warrant Shares to which the Warrants relate;

"**Compound Total Return**" means the compound annual percentage increase which, when applied to the Prior Benchmark, would result in an amount equal to:

(a) the Current Benchmark; plus

(b) an amount equal to the Dividends paid per Common Share taken account of on the date of payment in accordance with worked examples determined in accordance with the internal rate of return ("IRR") methodology;

"**Current Benchmark**" means the Value on the day after the expiry of the relevant Performance Period;

"**Dividends**" means all capital or income distributions or other payments of a substantially similar nature paid from time to time to shareholders or Warrant Holders in respect of the Common Shares or rights thereover;

"**Fully Diluted Book Value Per Share Appreciation**" means the quotient of the sum of (a) the net asset book value of the Company determined under International Financial Reporting Standards ("IFRS") ("Book Value") plus (b) the aggregate exercise price of all outstanding options or warrants (whether or not subject to unfulfilled performance or vesting criteria) granted over the securities of the Company (except for unvested Management Warrants, all Performance Warrants and all options pursuant to the LTIP) less (c) the proceeds received by the Company on the exercise of the Performance Warrants and options pursuant to the LTIP plus (d) the cumulative value of all Dividends or other distributions made by the Company to shareholders or Warrant Holders; divided by (e) the Fully Diluted Share Capital; less (f) US$5.00 as the same shall be calculated by the Company's external independent auditors;

"**Fully Diluted Share Capital**" means the number of securities of the Company issued and outstanding or which could potentially be acquired pursuant to outstanding options or warrants or conversion rights (whether or not subject to unfulfilled performance or vesting criteria) except for unvested Management Warrants, all Performance Warrants and all options pursuant to the LTIP and any securities of the Company issued on exercise of the Performance Warrants or options pursuant to the LTIP;

"Measurement Date" means each of (i) 31 December 2007 (ii) 31 December 2008 (iii) 31 December 2009 or, in the event of a Sale or liquidation prior to 31 December 2009, the date of closing of such Sale or effective date of such liquidation;

"**Planned Appreciation Threshold**" means US$2.55 at 31 December 2007, US$4.19 at 31 December 2008 and the 2009 Planned Appreciation Threshold Figure at 31 December 2009 (such figures having been calculated as at the date of Admission using the same methodology as set out in the definition of Fully Diluted Book Value Per Share Appreciation);

"**Prior Benchmark**" means US$5.00;

"**Sale**" means (a) the transfer (whether through a single transaction or a series of transactions) of Common Shares in the Company as a result of which any person (or persons connected with each other or acting in concert with each other) would hold or acquire beneficial ownership of or over the number of Common Shares in the Company which in aggregate confers 50 per cent. or more of the voting rights normally exercisable at general meetings of the Company; or (b) the disposal of a majority of the business or assets of the Company; or (c) the consolidation amalgamation or merger of the Company with or into any other entity where the Company is not the surviving entity; and

"Value" means the average reported closing price of Common Shares, on the securities exchange or trading system on which the Common Shares are then listed or admitted to trading, over the 20 preceding trading days.

1. ***Book Value Performance Shares***

1.1 The maximum number of Book Value Performance Shares which will (subject to paragraphs 1.2, 1.3 and 3 below) vest at each Measurement Date (the "Book Value Entitlement Shares") shall be determined on the basis set out below:

Measurement Date	*Maximum Percentage of Book Value Performance Shares capable of vesting*
31 December 2007	20% of the Book Value Performance Shares
31 December 2008	40% of the Book Value Performance Shares
31 December 2009	40% of the Book Value Performance Shares

1.2 The percentage of Book Value Entitlement Shares which will (subject always to paragraphs 1.1 above and 3 below) vest at each Measurement Date will be calculated by reference to the percentage the Fully Diluted Book Value Per Share Appreciation at the relevant Measurement Date represents to the Planned

Appreciation Threshold at the relevant Measurement Date, as the same shall be determined by the Company's external independent auditors, on the basis set out below:

Percentage of Planned Appreciation Threshold	*Percentage of Book Value Entitlement Shares (subject to paragraph 3 below)*
70%	0%
80%	33.3%
90%	66.7%
100%	100%

Note: midpoints between thresholds to be interpolated linearly on a straight line basis.

1.3 In the event of a Sale or liquidation prior to 31 December 2009 each of the Book Value Entitlement Shares which are not Lapsed Entitlement Shares (as defined in paragraph 5 below) will be deemed to be Compound Return Performance Shares and will be treated in all respects in accordance with the provisions of paragraph 2 hereof relating to Compound Return Entitlement Shares.

1.4 No entitlement to Book Value Entitlement Shares shall arise to the extent that the percentage of Planned Appreciation Threshold is less than 70 per cent.

1.5 The Company shall procure that at the first meeting of the Remuneration Committee of the Company following Admission such committee will, acting in good faith and fairly and reasonably in relation to each affected Warrant Holder, agree and determine the 2009 Planned Appreciation Threshold Figure (using the Company's own internal financial projections for the year ended 31 December 2009 and applying the same methodology employed in determining the Planned Appreciation Thresholds for the years ended 31 December 2007 and 2008) and shall notify the same in writing to the Company and each affected Warrant Holder.

2. ***Compound Return Performance Shares***

2.1 The maximum number of Compound Return Performance Shares which will (subject to paragraphs 2.2, 2.3 and 3 below) vest at each Measurement Date (the "Compound Return Entitlement Shares") shall be determined on the basis set out below:

Measurement Date	*Maximum Percentage of Compound Return Performance Shares capable of vesting*
31 December 2007	20% of the Compound Return Performance Shares
31 December 2008	40% of the Compound Return Performance Shares
31 December 2009	40% of the Compound Return Performance Shares

2.2 The Compound Return Entitlement Shares to which the Warrant Holder shall, subject always to paragraphs 2.1 above and 3 below, become entitled shall be calculated at each Measurement Date by reference to the Compound Total Return achieved, as the same shall be determined by the Company's external independent auditors, on the basis set out below:

(a) an entitlement to 33.33 per cent. of the Compound Return Entitlement Shares will accrue upon the Company achieving a Compound Total Return of 20.0 per cent. (the "First Trigger Return"); and

(b) an entitlement to 50 per cent. of the Compound Return Entitlement Shares will accrue upon the Company achieving a Compound Total Return of 25.0 per cent. (the "Second Trigger Return"); and

(c) an entitlement to 100 per cent. of the Compound Return Entitlement Shares will accrue upon the Company achieving a Compound Total Return of 30 per cent. (the "Final Trigger Return"); and

(d) an entitlement to a *pro rata* percentage of the Compound Return Entitlement Shares will accrue in respect of each 0.1 per cent. of Compound Total Return achieved over the First Trigger Return up to and including the Second Trigger Return (accreting on a straight line basis *pro rata* for every

0.1 per cent. of Compound Total Return over the First Trigger Return) and again in respect of each 0.1 per cent. of Compound Total Return achieved over the Second Trigger Return up to and including the Final Trigger Return (accreting on a straight line basis *pro rata* for every 0.1 per cent. of Compound Total Return over the Second Trigger Return) up to and including a Compound Total Return of 30.0 per cent.

No entitlement to Compound Return Entitlement Shares shall arise to the extent that Compound Total Return is less than 20.0 per cent.

2.3 In the event of a Sale or liquidation prior to 31 December 2009 the relevant Compound Total Return will be determined by calculating the Compound Total Return at completion of the Sale or the effective date of liquidation in respect of all Compound Return Entitlement Shares which are not Lapsed Entitlement Shares (as defined in paragraph 5 below).

3. ***Valid Employment***

No Warrant Shares will vest under the Warrants unless at the time of such vesting the Warrant Holder either (i) remains employed by the Company (or a member of the Group) or (ii) has been dismissed from employment by the Company (or a member of the Group) for reasons other than Wilful Misconduct.

4. ***Reorganisation***

In connection with any sub-division, consolidation, redesignation, reclassification (of whatever nature) of the Warrant Shares or any partial Sale or other event which would equitably require a change to the vesting provisions of this Warrant, or in the event of a change in applicable accounting rules, the independent external auditors of the Company shall make such adjustments to the terms summarised herein or to the Warrant Shares, the Book Value Performance Shares or the Compound Return Performance Shares, including but not limited to the Planned Appreciation Threshold, if any, as they shall determine shall be necessary to equitably reflect such event in order to prevent dilution or enlargement of the potential benefits of the Warrant Shares and this Warrant. Such auditors determination as to any such adjustment shall be final.

5. ***Lapse***

Book Value Entitlement Shares or Compound Return Entitlement Shares which are available to vest on any given Measurement Date but which do not vest (due to the performance criteria required to be met for all to vest not having been reached) will lapse ("Lapsed Entitlement Shares") and the Warrant will not be exerciseable in respect of such Lapsed Entitlement Shares.

PART 9

ADDITIONAL INFORMATION

1. Responsibility and reports by experts

1.1 The Company, whose name and registered office appears on page 6, and the Directors, whose names appear on page 6, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

1.2 Ernst & Young LLP, reporting accountants to the Company, whose name and address appears on page 7, has given and not withdrawn its written consent to the inclusion of the accountant's report in Part 6 – Accountant's Report and Financial Information on the Company and the references thereto and to its name in the form and context in which they are included in this document and accepts responsibility for such report. Ernst & Young LLP has no material interest in the Company.

2. Incorporation and principal activities

2.1 The Company was incorporated and registered in Bermuda on 12 October 2005 as an exempted company limited by shares with the name Lancashire Holdings Limited and with registration number EC37415.

2.2 The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11 Bermuda.

2.3 The Company is a company limited by shares and accordingly the liability of the members of the Company is limited.

2.4 The sole activity of the Company is to act as a holding company for the Group.

2.5 The principal legislation under which the Company operates is the Act and regulations made thereunder. The Company is domiciled in Bermuda. The Common Shares have been issued under the Act.

2.6 The Company's principal place of business is 44 Church Street, Hamilton HM12, Bermuda (telephone: +1 441 278 8950).

3. Company and share capital

3.1 The Company was incorporated with an authorised share capital of US$120,000 divided into 1,200,000 common shares of US$0.10 of which 120,000 common shares were subscribed for by Pembroke Company Limited and were issued, nil paid.

3.2 The following changes in the authorised and issued common share capital of the Company have occurred between its incorporation on 12 October 2005 and 9 December 2005 (being the most recent practicable date before publication of this document):

3.2.1 pursuant to a Shareholder's resolution and a Directors' resolution, each duly adopted on 20 October 2005, the authorised common share capital of the Company was increased from US$120,000 to US$1,500,000,000;

3.2.2 pursuant to a Directors' resolution dated 24 October 2005, on 27 October 2005 16,000,000 Existing Common Shares (of US$0.10 each at the date of issue) were issued fully paid and the original 120,000 common shares issued on incorporation were repurchased by the Company;

3.2.3 pursuant to a Shareholders' resolution adopted on 9 December 2005 and a Directors' resolution adopted on 7 December 2005, every five common shares of US$0.10 each in issue were consolidated into one Common Share of US$0.50 and every five common shares of US$0.10 each in the authorised but unissued common share capital of the Company were consolidated into one Common Share of US$0.50 in the authorised but unissued common share capital of the Company so that immediately following such consolidation the authorised share capital of the Company consisted of $1,500,000,000 divided into 3,000,000,000 Common Shares;

3.2.4 pursuant to a Shareholders' resolution adopted on 9 December 2005 the Directors were generally and unconditionally authorised for the purposes of Bye-law 2.4 of the Bye-laws to, allot and issue "Relevant Securities" (as such term is defined in the said Bye-law 2.4) having an aggregate nominal amount of US$30,000,000, such authority to expire on the earlier of the date falling five (5) years after the effective date of this resolution or the conclusion of the Company's 2010 annual general meeting; and

3.2.5 pursuant to a Shareholders' resolution adopted on 9 December 2005 the Directors were generally empowered pursuant to Bye-law 2.6(a) to allot "Equity Securities" (as defined in Bye-law 2.5(g) of the Bye-laws) pursuant to the authority described in the preceding paragraph as if Bye-law 2.5 of the Bye-laws did not apply to any such allotment, such power being limited to:

3.2.5.1 the allotment of Equity Securities in connection with an offer or issue to holders of Relevant Shares, Relevant Employee Shares or Relevant Warrant Shares (each as defined in the Bye-laws) of the Company where the Equity Securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of such shares held by them but including, in connection with such an issue, the making of such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems arising in or under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

3.2.5.2 the allotment (other than pursuant to the power described to in sub-paragraph 3.2.5.1 above) of Equity Securities up to an aggregate nominal amount equal to 5 per cent. of the issued and unconditionally allotted share capital of the Company following Admission,

such authority to expire on the earlier of the date falling five (5) years after the effective date of this Resolution or the conclusion of the Company's 2010 annual general meeting.

3.3 The Placing Shares have been issued and allotted, conditional upon Admission, pursuant to a resolution of a committee of the Board dated 12 December 2005.

3.4 As at the date of this document and immediately following the Placing, assuming all the Institutional Placing Shares and Subscription Shares are issued and allotted, the authorised and issued share capital of the Company is and will be as follows:

	Authorised Share capital (number)	*US$*	*Issued (fully paid) Existing Common Share capital (number)*	*US$*
Common Shares as at the date of this document	3,000,000,000	1,500,000,000	3,200,000	1,600,000
Subscription Shares	–	–	112,013,902	56,006,951
Institutional Placing Shares	–	–	70,000,000	35,000,000

3.5 Save in connection with the Placing and save as otherwise disclosed in paragraphs 8 and 16.5 of this Part 9 – Additional Information and in Part 8 – Summary of the Warrants, no share or loan capital of the Group is currently proposed to be issued or is under option or agreed, conditionally or unconditionally, to be put under option.

3.6 On Admission, the Placing Shares will rank *pari passu* in all respects with the Existing Common Shares including the right to receive all dividends and other distributions declared, made or paid after Admission on the issued Common Shares.

4. Memorandum of association and Bye-laws

4.1 The objects and powers of the Company are set out in paragraph 6 of its memorandum of association and include acting as a holding company.

The rights attaching to the Common Shares are set out in the Bye-laws of the Company. The Bye-laws, which were adopted on 9 December 2005, contain, *inter alia*, provisions to the following effect.

4.2 ***Rights attached to share capital***

The holders of the Common Shares (subject to the other provisions of the Bye-laws) are:

4.2.1 entitled to one vote per share, except as provided below;

4.2.2 entitled to receive notice of, and attend and vote at, general meetings of the Company;

4.2.3 entitled to such dividends as the Board may from time to time declare; and

4.2.4 in the event of a winding-up or dissolution of the Company, entitled to be paid the surplus assets of the Company remaining after payment of its liabilities (subject to the rights of holders of any shares in the Company then in issue having preferred rights on the return of capital) in respect of their holdings of Common Shares *pari passu* and *pro rata* to the number of Common Shares held by each of them.

The Company's major Shareholders do not have any different voting rights to what is described in this paragraph.

4.3 ***Modification of rights***

Subject to the Act, all or any of the special rights for the time being attached to any class of shares may, unless otherwise provided in the rights attached to the terms of issue of the shares of that class, be altered or abrogated with the consent in writing of the holders of not less than 75 per cent. of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of such shares voting in person or by proxy at which special meeting the quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class.

4.4 ***Alteration of capital***

The Company may, if authorised by a resolution of the Board, increase its share capital and, if authorised by a resolution of the Shareholders, divide, consolidate, subdivide, change the currency denomination of, diminish or otherwise alter or reduce its share capital in any manner permitted by the Act. Where, on any alteration or reduction of share capital, fractions of shares or some other difficulty would arise, the Board may deal with or resolve the same in such manner as it thinks fit, provided that any such action does not result in, after taking into account the restrictions on exercise of voting rights contained in Bye-laws 39-43 (inclusive), any non *de minimis* adverse tax, regulatory or legal consequences to the Company, any subsidiary of the Company, or any direct or indirect holder of shares or its affiliates.

4.5 ***Voting rights***

In general, and except as provided below, Shareholders have one vote for each Common Share held by them and are entitled to vote at all meetings of Shareholders. However, if, and so long as, the

Common Shares of a Shareholder in the Company are treated as "controlled shares" (as determined pursuant to section 958 of the Code and Treasury Regulations promulgated thereunder and under section 957 of the Code) of any US Person and such controlled shares constitute 9.5 per cent. or more of the votes conferred by the issued shares of the Company, the voting rights with respect to the controlled shares owned by such US Person shall be limited, in the aggregate, to a voting power of less than 9.5 per cent., under a formula specified in the Bye-laws. The formula is applied repeatedly until the voting power of all 9.5 per cent. US Shareholders has been reduced to less than 9.5 per cent. In addition, the Board may limit a Shareholder's voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5 per cent. US Shareholder; and (ii) avoid certain adverse tax, legal or regulatory consequences to the Company or any of its subsidiaries or any Shareholder or its affiliates. "Controlled shares" includes, among other things, all shares of the Company that such US Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code and Treasury Regulations promulgated thereunder and under section 957 of the Code). The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among all other Shareholders of the Company whose shares were not "controlled shares" of the 9.5 per cent. US Shareholder so long as such reallocation does not cause any person to become a 9.5 per cent. US Shareholder.

Under these provisions, certain Shareholders may have their voting rights limited, while other Shareholders may have voting rights in excess of one vote per Common Share. Moreover, these provisions could have the effect of reducing the votes of certain Shareholders who would not otherwise be subject to the 9.5 per cent. limitation by virtue of their direct share ownership.

The Company can require any Shareholder to provide such information as the Directors may reasonably request for the purpose of determining whether a Shareholder's voting rights are to be adjusted. If any Shareholder fails to respond to this request or submits incomplete or inaccurate information in response to such request, the Directors may, in their sole discretion, determine that the Shareholder's shares shall carry no voting rights until otherwise determined by the Board. All information provided by the Shareholder shall be treated by the Company as confidential information and shall be used by the Company solely for the purpose of establishing whether any 9.5 per cent. US Shareholder exists (except as otherwise required by applicable law or regulation).

4.6 ***Voting of Non-US Subsidiary shares***

If the Company is required or entitled to vote at a general meeting of the Insurer or any other directly held non-US subsidiary of the Company (together, the "Non-US Subsidiaries"), the Company's Directors shall refer the subject matter of the vote to the Shareholders on a poll and seek authority from such Shareholders as to how the Company should vote on the resolution proposed by the Non-US Subsidiary. Substantially similar provisions are or will be contained in the Bye-laws (or equivalent governing documents) of the Non-US Subsidiaries.

4.7 ***Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in writing in the form contemplated by section 12.1 of the Bye-laws, or as near thereto as the circumstances admit, or in such other form as the Board may accept. An instrument of transfer shall be signed by or on behalf of the transferor and (where any share is not fully paid) the transferee. The Directors may, in their absolute discretion and without assigning any reason therefore, decline to register any transfer of any share which is not a fully-paid share. Further, the Directors may decline to register a transfer of shares if they believe that the result of such transfer may result in a non-*de minimis* adverse tax, legal or regulatory consequence to the Company, the Insurer, any other subsidiary of the Company or any direct or indirect holder of shares or its affiliates provided that such refusal does not prevent dealings in such shares taking place on an open and proper basis. Shares may be transferred without a written instrument if transferred by an appointed agent or otherwise in accordance with the Act.

The Bye-laws do not contain any restrictions other than those described above on the transferability of fully-paid shares provided that the Company has no lien over such shares, is duly stamped (if so

required) and the Directors are satisfied that all applicable approvals under Bermuda law required to be obtained prior to such transfer has been obtained.

4.8 ***Power to issue shares***

Subject to the Bye-laws and to any resolution of Shareholders to the contrary, the Directors shall have the power to issue any unissued shares of the Company on such terms and conditions as they may determine.

4.9 ***Authority to issue shares***

The Directors shall not exercise any power of the Company to allot "Relevant Securities" (meaning any shares of the Company (other than shares allotted in pursuance of any Employee Share Scheme (as defined in the Bye-laws), or Warrants exercised under the Warrant Certificates (as defined in the Bye-laws)) and any right to subscribe for, or to convert any security into, shares in the Company) unless authorised to do so by a shareholders' resolution in a general meeting. Relevant Securities shall not include shares allotted or the right to subscribe for or convert any security into shares granted as part of any offering of shares culminating in an "Admission" (meaning the first occurring admission of any class of shares of the Company to trading on AIM or to the Official List and to trading on the London Stock Exchange's market for listed securities) (including any shares so allotted or rights granted, whether before or after Admission, in accordance with any over-allotment or stabilisation arrangements entered into by the Company in connection therewith). Any authority, whether it is unconditional or subject to conditions, or whether given generally or for a particular exercise, shall state the maximum amount of Relevant Securities that may be allotted under it and the date on which it will expire, to be no more than five years from the date on which the resolution is passed, unless previously revoked or varied by resolution of the shareholders in general meeting. Whether the definition of Relevant Securities applies to any rights to subscribe for or to convert any security into shares, the authority relates to the maximum number of shares which may be allotted pursuant to such rights. The Directors may allot Relevant Securities after the expiry of the authority, in pursuance of an offer or agreement made by the Company before the expiry of such authority. No breach of these provisions shall affect the validity of any allotment or any Relevant Securities.

4.10 ***Pre-emption rights***

The Bye-laws contain provisions giving pre-emption rights to holders of "Relevant Shares" (meaning the shares in the Company other than (i) those shares giving rights to participate only up to a specified amount of dividend and capital in a distribution; and (ii) shares acquired or to be allotted pursuant to any Employee Share Scheme or pursuant to any warrants exercised under the Warrant Certificates (each as defined in the Bye-laws), entitling them to be offered "Equity Securities" meaning Relevant Shares and the right to subscribe for or convert securities into Relevant Shares, excluding shares or any rights to subscribe for or convert any security into shares as part of any offering of shares or any rights to subscribe for or convert any security into shares as part of any offering of shares culminating in an Admission (including any shares so allotted or rights granted, whether before or after Admission, in accordance with any over-allotment or stabilisation arrangements entered into by the Company in connection therewith), in proportion to their existing shareholdings. These pre-emption provisions do not apply to allotments of Equity Securities which are paid otherwise than in cash (meaning where paid up otherwise than by cash received by the Company or cheque received by the Company in good faith which the Directors have no reason to suspect will not be paid or release of a liability of the Company for a liquidated sum or an undertaking to pay cash to the Company at a future date, where "cash" also includes foreign currency) and they do not apply to the allotment of securities which would be held under any Employee Share Scheme (as defined in the Bye-laws). Any Equity Securities which the Company has offered to a holder of Relevant Shares may be allotted to him, or to anyone in whose favour he has renounced his right to their allotment, without contravening these provisions. Any offer made under these provisions must state a period of not less than 21 days during which it may be accepted and this offer shall not be withdrawn before the end of such period.

4.11 ***Disapplication of pre-emption rights***

The pre-emption rights contained summarised above may be disapplied in whole or modified as the Directors determine, provided the Directors are given power by resolution of a special majority of not less than three-fourths of the Company's shareholders as (being entitled to do so) vote in person or by proxy at a general meeting of the Company, which shall not be proposed unless recommended by the Directors and a notice is circulated to shareholders with a Directors' statement setting out reasons for making such recommendation, the amount to be paid to the Company in respect of such allotment, and the Directors' justification of such amount.

4.12 ***Dividends and other distributions***

The Company may by resolution of the Directors (subject to its constitutional documents and the Act), declare a dividend or other distribution to be paid to Shareholders from funds legally available for payment of dividends or distributions, in accordance with their respective rights and interests. The Board may fix any date as the record date for determining the Shareholders entitled to receive any dividend. Such dividend or other distribution may be paid in cash or wholly or partly by the distribution of specific assets and may fix the value for dividend or distribution purposes of any such specific assets. The Directors may resolve to capitalise any sum outstanding to the credit of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up additional Common Shares in the Company, credited as fully paid, instead of cash in respect of all or part of a dividend.

Any dividend and/or other moneys payable in respect of a Common Share which has remained unclaimed for seven years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company. The payment of any unclaimed dividend or other moneys payable in respect of a Common Share may (but need not) be paid by the Company into an account separate from the Company's own account. Such payment shall not constitute the Company as a trustee in respect thereof.

4.13 ***Shareholders' meetings***

4.13.1 *Annual general meetings*

The annual general meeting of the Company shall be held in each year (other than the year of incorporation) at such time and place as the President or the Chairman or the Board shall appoint, provided that no general meeting shall be held in the UK.

4.13.2 *Special general meetings*

The President or the Chairman or the Board may convene a special general meeting of the Company whenever in their judgement such a meeting is necessary, provided that no special general meeting shall be held in the UK.

4.13.3 *Requisitioned general meetings*

The Board shall, on the requisition of Shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up share capital of the Company as at the date of the deposit carries the right to vote at general meetings of the Company, forthwith proceed to convene a special general meeting of the Company and the provisions of the Act shall apply.

4.13.4 *Notice*

4.13.4.1 At least 21 days' notice of an annual general meeting shall be given to each Shareholder entitled to attend and vote thereat, stating the date, place and time at which the meeting is to be held, that the election of Directors will take place thereat, and as far as practicable, the other business to be conducted at the meeting.

4.13.4.2 At least 21 days' notice of a special meeting shall be given to each Shareholder entitled to attend and vote thereat, stating the date, place and general nature of the business to be considered at the meeting.

4.13.4.3 The Board may fix any date as the record date for determining the Shareholders entitled to receive notice of and to vote at any general meeting of the Company.

4.13.4.4 A general meeting of the Company shall, notwithstanding that it is called on shorter notice than that specified in the Bye-laws, be deemed to have been properly called if it is so agreed by (i) all the Shareholders entitled to attend and vote thereat in the case of an annual general meeting; and (ii) by a majority in number of the Shareholders having the right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving a right to attend and vote thereat in the case of a special general meeting.

4.13.4.5 The accidental omission to give notice of a general meeting to, or the non-receipt of a notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

4.13.5 *Giving notice*

4.13.5.1 A notice may be given by the Company to any Shareholder either by delivering it to such Shareholder in person or by sending it to such Shareholder's address in the Register of Shareholders or to such other address given for the purpose. For the purposes of this Bye-law, a notice may be sent by letter mail, courier service, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form.

4.13.5.2 Any notice required to be given to a Shareholder shall, with respect to any shares held jointly by two or more person, be given to whichever of such persons is named first in the Register of Shareholders and notice so given shall be sufficient notice to all the holders of such shares.

4.13.5.3 Save as provided in paragraph 4.13.5.4 below, any notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, at the time when it was posted, delivered to the courier or to the cable company or transmitted by telex, facsimile, electronic mail, or such other method as the case may be.

4.13.5.4 Mail notice shall be deemed to have been served seven days after the date on which it is deposited, with postage prepaid, in the mail of any member state of the European Union, the US or Bermuda.

4.13.5.5 The Company shall be under no obligation to send a notice or other document to the address shown for any particular Shareholder in the Register of Shareholders if the Board considers that the legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange in, the territory in which that address is situated are such that it is necessary or expedient not to send the notice or document concerned to such Shareholder at such address and may require a Shareholder with such an address to provide the Company with an alternative acceptable address for delivery of notices by the Company.

4.13.6 *Postponement or cancellation of general meeting*

The Chairman or the President may, and the Secretary on instruction from the Chairman or the President shall, postpone or cancel any general meeting called in accordance with the provisions of the Bye-laws (other than a meeting requisitioned under the Bye-laws) provided that notice of postponement or cancellation is given to each Shareholder before the time for such meeting. Fresh notice of the date, time and place for the postponed or cancelled meeting shall be given to the Shareholders in accordance with the provisions of the Bye-laws.

4.13.7 *Attendance and security at general meetings*

4.13.7.1 Shareholders may participate in any general meeting by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

4.13.7.2 The Board may, and at any general meeting, the chairman of such meeting may make any arrangement and impose any requirement or restriction it or he considers appropriate to ensure the security of a general meeting including, without limitation, requirements for evidence of identity to be produced by those attending the meeting, the searching of their personal property and the restriction of items that may be taken into the meeting place. The Board and, at any general meeting, the chairman of such meeting are entitled to refuse entry to a person who refuses to comply with any such arrangements, requirements or restrictions.

4.13.8 *Quorum at general meetings*

4.13.8.1 At any general meeting of the Company two or more persons present in person at the start of/throughout the meeting and representing in person or by proxy in excess of 50 per cent. of the total issued voting shares in the Company (after giving effect to any adjustment in voting rights described in paragraph 4.5 of this Part 9 – Additional Information) shall form a quorum for the transaction of business.

4.13.8.2 If within half an hour from the time appointed for the meeting a quorum is not present, then, in the case of a meeting convened on a requisition, the meeting shall be deemed cancelled and, in any other case, the meeting shall stand adjourned to the same day one week later, at the same time and place or to such other day, time or place as the Secretary may determine. If the meeting shall be adjourned to the same day one week later or the Secretary shall determine that the meeting is adjourned to a specific date, time and place, it is not necessary to give notice of the adjourned meeting other than by announcement at the meeting being adjourned. If the Secretary shall determine that the meeting be adjourned to an unspecified date, time or place, fresh notice of the resumption of the meeting shall be given to each Shareholder entitled to attend and vote thereat in accordance with the provisions of the Bye-laws.

4.13.9 *Chairman to preside*

Unless otherwise agreed by a majority of those attending and entitled to vote thereat, the Chairman, if there be one, and if not the President, shall act as chairman at all meetings of the Shareholders at which such person is present. In their absence, the Deputy Chairman or Vice President, if present, shall act as chairman and in the absence of all of them a chairman shall be appointed or elected by those present at the meeting and entitled to vote.

4.13.10 *Representation of corporate member*

4.13.10.1 A corporation which is a Shareholder may, by written instrument, authorise such person or persons as it thinks fit to act as its representative at any meeting of the Shareholders and any person so authorised shall be entitled to exercise the same powers on behalf of the corporation which such person represents as that corporate could exercise if it were an individual Shareholder, and that Shareholder shall be deemed to be present in person at any such meeting attended by its authorised representative or representatives.

4.13.10.2 Notwithstanding the foregoing, the chairman of the meeting may accept such assurances as he thinks fit as to the right of any person to attend and vote at general meetings on behalf of a corporation which is a Shareholder.

4.13.11 *Adjournment of general meeting*

4.13.11.1 The chairman of any general meeting at which a quorum is present may with the consent of Shareholders holding a majority of the voting rights of those Shareholders present in person or by proxy (and shall if so directed by Shareholders holding a majority of the voting rights of those Shareholders present in person or by proxy), adjourn the meeting.

4.13.11.2 In addition, the chairman may adjourn the meeting to another time and place without such consent or direction if it appears to him that:

(a) it is likely to be impracticable to hold or continue that meeting because of the number of Shareholders wishing to attend who are not present; or

(b) the unruly conduct of persons attending the meeting prevents, or is likely to prevent, the orderly continuation of the business of the meeting; or

(c) an adjournment is otherwise necessary so that the business of the meeting may be properly conducted.

4.13.11.3 Unless the meeting is adjourned to a specific date, place and time announced at the meeting being adjourned, fresh notice of the date, place and time for the resumption of the adjourned meeting shall be given to each Shareholder entitled to attend and vote thereat in accordance with the provisions of the Bye-laws.

4.13.12 *Written resolutions*

4.13.12.1 Subject to the following, anything (except for the removal of an auditor or Director before the expiration of his terms of office) which may be done by resolution of the Company in general meeting or by resolution of a meeting of any class of the Shareholders may, without a meeting and without any previous notice being required, be done by resolution in writing signed by, or in the case of a Shareholder that is a corporation whether or not a company within the meaning of the Act, on behalf of, all the Shareholders who at the date of the resolution would be entitled to attend the meeting and vote on the resolution (after giving effect to any adjustment in voting rights described in paragraph 4.5 of this Part 9 – Additional Information).

4.13.12.2 A resolution in writing may be signed by, or in the case of a Shareholder that is a corporation whether or not a company within the meaning of the Act, on behalf of, all the Shareholders, or all the Shareholders of the relevant class thereof, in as many counterparts as may be necessary.

4.14 ***Directors***

Election of Directors

4.14.1 The Board shall consist of such number of Directors being not less than 2 Directors and not more than such maximum number of Directors, not exceeding 15 Directors, as the Board may from time to time determine.

4.14.2 Only persons who are proposed or nominated in accordance with Bye-law 46 shall be eligible for election as Directors. Any Shareholder or the Board may propose any person for election as a Director. Where any person, other than a Director retiring at the meeting or a person proposed for re-election or election as a Director by the Board, is to be proposed for election as a Director, notice must be given to the Company of the intention to propose him and of his willingness to serve as a Director. Where a Director is to be elected at an annual general meeting, that notice must be given not less than 90 days nor more than 120 days before the anniversary of the last annual general meeting prior to the giving of the notice or, in the event the annual general meeting is called for a date that is not 30 days before or after such anniversary the notice must be given not later than 10 days following the earlier of the date

on which notice of the annual general meeting was posted to Shareholders or the date on which public disclosure of the date of the annual general meeting was made. Where a Director is to be elected at a special general meeting, that notice must be given not later than 10 days following the earlier of the date on which notice of the special general meeting was posted to Shareholders or the date on which public disclosure of the date of the special general meeting was made. Where there are more nominees for election than the number of Directors to be elected, the person(s) receiving the most votes shall be elected as the Director(s), otherwise nominees shall be elected by a majority vote of the Shareholders present and voting at the relevant general meeting.

4.14.3 At any general meeting the Shareholders may authorise the Board to fill any vacancy in their number left unfilled at a general meeting.

4.14.4 A Director may also be appointed or elected pursuant to the special rights that may be designated by the Board in respect of a class or series of shares pursuant to Bye-law 4.2(c).

4.14.5 On or before the date of the first annual general meeting of Shareholders following the incorporation of the Company, the Directors shall be divided by the Shareholders into three classes designated Class I, Class II and Class III. Each class of Directors shall consist, as nearly as possible, of one third of the total number of Directors constituting the entire Board.

No Share qualification

4.14.6 A Director is not required to hold any shares in the capital of the Company and is entitled to attend and speak at general meetings or at any separate meeting of the holders of any class of shares or debentures in the capital of the Company, notwithstanding that the Director does not hold shares.

Term of office of Directors

4.14.7 The term of office of the first Class I Directors shall expire at the 2009 annual general meeting of the Shareholders, the term of office of the first Class II Directors shall expire at the 2008 annual general meeting of the Shareholders and the term of office of the first Class III Directors shall expire at the 2007 annual general meeting of the Shareholders. At each annual general meeting, successors to the class of Directors whose term expires at that annual general meeting shall be elected for a three year term. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, and any Director of any class elected to fill a vacancy shall hold office for a term that shall coincide with the remaining term of the other Directors of that class, but in no case shall a decrease in the number of Directors shorten the term of any Director then in office. A Director shall hold office until the annual general meeting for the year in which his term expires, subject to his office being vacated earlier pursuant to Bye-law 50 or Bye-law 51.

Alternate Directors

4.14.8 The Bye-laws provide for the appointment of alternate Directors (Bye-law 49).

Removal of Directors

4.14.9 Subject to the Bye-laws, the Shareholders may remove a Director at any special general meeting (in the case of Richard Brindle, only with cause until the earlier of Admission or 1 April 2006), provided that the notice of any such meeting be served on such Director not less than 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

4.14.10 If a Director is removed from the Board under the provisions of Bye-law 50 and 51 the Shareholders may fill the vacancy. In the absence of such election or appointment, the Board may fill the vacancy.

Vacancy in the office of Director

4.14.11 The office of Director shall be vacated if the Director: is removed from office pursuant to the Bye-laws or is prohibited from being a Director by law, is or becomes bankrupt, or makes any arrangement or composition with his creditors generally, is or becomes of unsound mind or dies, resigns his office by notice in writing to the Company or upon his term of office expiring pursuant to the special rights of any class or series of shares.

4.14.12 The Shareholders in general meeting or the Board shall have the power to appoint any person as a Director to fill a vacancy on the Board occurring as a result of the death, disability, disqualification or resignation of any Director or as a result of an increase in the size of the Board and to appoint an Alternate Director to any Director so appointed.

Directors' fees

4.14.13 The amount of any remuneration payable to Directors shall be determined by the Directors and paid in accordance with the Bye-laws.

Remuneration of executive Director

4.14.14 Any Director who holds any executive office (including for this purpose the office of chairman or deputy chairman), or who serves on any committee, or who, at the request of the Directors, goes or resides abroad, makes any special journey or otherwise performs services which in the opinion of the Directors, determined in a resolution of the Directors, are outside the scope of the ordinary duties of a Director, may be paid such remuneration by way of salary, commission or otherwise as the Directors may determine in addition to or in lieu of any fee payable to him for his services as Director pursuant to the Bye-laws.

Expenses

4.14.15 The Company shall repay to any Director all such reasonable expenses as he may properly incur in the performance of his duties.

Directors' pensions and other benefits

4.14.16 The Directors may exercise all the powers of the Company to establish and maintain a pension or superannuation funds for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company or any other company in which the Company has any interest whether direct or indirect and to the families and dependants of any such persons, and also establish and subsidise or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well-being of the Company or of any such other company, or of any such persons as aforesaid, and, subject to the Act, make payments for or towards the insurance of any such persons as aforesaid, and do any of the matters aforesaid either alone or in conjunction with any such other company.

Defect in appointment of Director

4.14.17 All acts done in good faith by the Board or by a committee of the Board or by any person acting as a Director shall be as valid as if every such person had been duly appointed and was qualified to be a Director.

Directors to manage business

4.14.18 The business of the Company shall be managed by the Board, who may exercise all such powers as are not required to be exercised by the Company in general meeting subject always to the Bye-laws and the provisions of any statute. The Board may delegate to any company, firm, person, or body of persons any power of the Board (including the power to sub-delegate).

Certain powers of the Board of Directors

4.14.19 The Board may appoint one or more Directors to the office of managing director or chief executive officer of the Company, who shall, subject to the control of the Board, supervise and administer all of the general business and affairs of the Company. The Board may also delegate any of its powers to a committee which may consist partly or entirely of non-Directors or to any person on such terms and in such manner as the Board may see fit provided that such person is resident outside the UK whether nominated directly or indirectly by the Board. The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

Officers

4.14.20 Officers are appointed by the Board and shall consist of a President and a Vice President or a Chairman and a Deputy Chairman, a Chief Executive Officer, a Chief Underwriting Officer, a Chief Financial Officer, a Secretary and such additional Officers as the Board may determine. All Officers must also be Directors. The Officers shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Board from time to time. The Officers shall receive such remuneration as the Board may determine.

Conflicts of interest

4.14.21 Any Director, or any Director's firm, partner or any company with whom any Director is associated, may act in any capacity for, be employed by or render services to the Company and such Director or such Director's firm, partner or company shall be entitled to remuneration as if such Director were not a Director. Nothing herein in the Bye-laws shall authorise a Director or Director's firm, partner or company to act as an auditor to the Company.

4.14.22 A Director who is directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of such interest as required by the Act. Following such a declaration, unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum for such meeting.

Indemnification and exculpation of Directors and Officers

4.14.23 Subject to the proviso that the indemnity (as summarised below) shall not extend to any matter which would render it void or unenforceable pursuant to the Act, the Directors, Secretary and other Officers shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, liabilities, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of the Company's business, or their duty, or supposed duty, or in their respective offices or trusts.

4.14.24 The indemnity (as described in the paragraph above) shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. Each Shareholder agrees to waive any claim or right of action such Shareholder might have, whether individually or by or in the right of the Company, against any Director or Officer on account of any action taken by such Director or Officer, or the failure of such Director or Officer to take any action in the performance of his duties with or for the Company or any subsidiary thereof, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director or Officer. The indemnity provided to the persons specified in Bye-law 62.1 shall apply if those persons are acting in the reasonable

belief that they have been appointed or elected to any office or trust of the Company, or any subsidiary thereof, notwithstanding any defect in such appointment or election.

4.14.25 To the extent that any person is entitled to claim an indemnity pursuant to Bye-law 62 in respect of amounts paid or discharged by him, the indemnity shall take effect as an obligation of the Company to reimburse the person making such payment or effecting such discharge.

4.14.26 No monies shall be paid unless payment is authorised in the specific case by the Board, by a majority vote at a meeting duly constituted by a quorum of Directors not party to the proceedings or matter with regard to which the indemnification is, or would be claimed, or if such meeting cannot be constituted because of a lack of disinterested quorum, by independent legal counsel in a written opinion, or by a resolution of the Shareholders.

4.14.27 The Company may purchase and maintain insurance for the benefit of any Director or Officer of the Company against any liability incurred by him under the Act in his capacity as a Director or Officer of the Company or indemnifying such Director or Officer in respect of any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which the Director or Officer may be guilty in relation to the Company or any subsidiary thereof.

4.14.28 Bye-law 62 shall provide the broadest indemnity allowable under applicable law.

4.15 ***Board meetings***

Board meetings

4.15.1 The Board may regulate its meetings as it sees fit, provided that no meeting of the Board shall be held in the UK. Subject to the provisions of the Bye-laws, a resolution put to the vote at a meeting of the Board shall be carried by the affirmative votes of a majority of the votes cast and in the case of an equality of votes the resolution shall fail.

Notice of Board meetings

4.15.2 A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Board. Notice of a meeting of the Board shall be deemed to be duly given to a Director if it is given to such Director verbally (in person or by telephone) or otherwise communicated or sent to such Director by post, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form at such Director's last known address or any other address given by such Director to the Company for this purpose.

Participation in meetings by telephone

4.15.3 Directors may participate in any meeting of the Board by means of such telephone, electronic or other communication facilities provided that such person is physically outside the UK. Such a meeting shall be deemed to take place outside the UK where the largest group of those Directors participating in the meeting is physically assembled, or, if there is no such group, where the chairman of the meeting then is.

Quorum at Board meetings

4.15.4 The quorum of the Board shall be two Directors. No meetings of the Board shall be quorate if the majority of the Directors present consist of persons who are resident in the UK for UK tax purposes respectively.

Board to continue in the event of vacancy

4.15.5 The Board may act notwithstanding any vacancy in its number but, if and so long as its number is reduced below the number fixed by the Bye-laws as the quorum necessary for the transaction of business at meetings of the Board, the continuing Directors or Director may

act for the purpose of (i) summoning a general meeting of the Company; or (ii) preserving the assets of the Company.

Chairman to preside

4.15.6 Unless otherwise agreed by a majority of the Directors attending, the Chairman, if there be one, and if not, the President shall act as chairman at all meetings of the Board at which such person is present. In their absence the Deputy Chairman or Vice President, if present, shall act as chairman and in the absence of all of them a chairman shall be appointed or elected by the Directors present at the meeting.

Written resolutions

4.15.7 Bye-law 69 provides for unanimous written resolutions of Directors to be as valid as though passed at a meeting of the Board.

Validity of prior acts of the Board

4.15.8 No regulation or alteration to the Bye-laws made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation or alteration had not been made.

4.16 ***Notification of interests in shares and disenfranchisement***

Shareholders are required under the Bye-laws to notify the Company whenever they (or any person who is interested in any shares held by them) become interested in shares in the capital of the Company representing more than 3 per cent. of the issued share capital of any class of shares of the Company, and of any addition to or reduction of such interests by 1 per cent. or more of the issued share capital of any class of share of the Company. If any Shareholder fails to comply with these requirements, the Board may, by notice to the holder of the shares, suspend their rights as to voting, dividends and transfer for so long as the default continues.

4.17 ***Power of the Company to investigate interests in shares***

Under the Bye-laws the Company may give notice to any person whom the Company knows or has reasonable cause to believe to be or, at any time during the 3 years immediately preceding the date on which the notice is issued, to have been interested in the Company's shares requiring them to confirm whether or not they have such an interest and where they hold or have during that time held an interest in the Company's shares, to give such further information as may be requested. If any Shareholder appearing to have such an interest does not comply with the request for information the Board may by notice to the Shareholder suspend their rights as to voting, dividends and transfer.

4.18 ***Return of capital***

The Board may resolve to capitalise all or any part of any amount standing to the credit of any reserve or fund which is available for distribution or to the credit of any share premium account by applying such amount in paying up unissued shares to be allotted as fully paid bonus shares *pro rata* to the Shareholders who would be entitled thereto if distributed by way of dividend and in the same proportions. Capital may also be returned by way of a reduction of capital pursuant to section 46 of the Act, or by way of a distribution of contributed surplus pursuant to section 54 of the Act. Further the Company has power pursuant to the Act to issue redeemable preference shares, and also to repurchase its Common Shares pursuant to the Act.

4.19 ***Takeover provisions***

To the extent permitted under the Act, Bye-law 88 adopts certain of the provisions of the Takeover Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the General Principles (including "Equal Treatment") and the rules governing substantial acquisitions of shares (each to the extent permitted by Bermuda law), which are to be administered by the Board. Bye-law 88 is to have effect only during such times as the Takeover Code does not apply to the Company.

Pursuant to Bye-law 88, a person must not: (i) acting by himself or with persons determined by the Board to be acting in concert, seek to acquire shares in the Company which carry 30 per cent. or more of the voting rights attributable to the shares in the Company; or (ii) acting by himself or with persons determined by the Board to be acting in concert, hold 30 per cent. but not more than 50 per cent. of the voting rights, and seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights, except as a result of a "permitted acquisition" (meaning an acquisition either consented to by the Board, or made in compliance with Rule 9 of the Takeover Code, or arising from the repayment of a stock borrowing arrangement); or (iii) effect or purport to effect an acquisition which would breach or not comply with the rules governing substantial acquisitions of shares and Rules 4, 5, 6 or 8 of the Takeover Code (as amended from time to time), if the Company were subject to the Takeover Code.

Where the Board has reason to believe that any of such circumstances has taken place, it may take all or any of certain measures: (i) require the person(s) appearing to be interested in the shares of the Company to provide such information as the Board considers appropriate; (ii) have regard to such public filings as may be necessary to determine any of the matters under Bye-law 88; (iii) make any determination under Bye-law 88 as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any; (iv) determine that the voting rights attached to such shares in breach of the Bye-laws, the "Excess Shares", are from a particular time incapable of being exercised for a definite or indefinite period; (v) determine that some or all of the Excess Shares are to be sold; (vi) determine that some or all of the Excess Shares will not carry any right to any dividends or other distributions from a particular time for a definite or indefinite period; and (vii) taking such actions as it thinks fit for the purposes of Bye-law 88, including prescribing rules not inconsistent with Bye-law 88, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determination or interim determinations, executing documents on behalf of a shareholder, converting any Excess Shares held in uncertificated form into certificated form and vice-versa, paying costs and expenses out of proceeds of sale, and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of Bye-law 88, including the deemed application of the whole or any part of the Takeover Code, and such authority shall include all the discretion that the Panel on Takeovers and Mergers in the UK would exercise if the whole or part of the Takeover Code applied. Any resolution or determination made by the Board, any Director or the chairman of any meeting acting in good faith is final and conclusive and is not open to challenge as to its validity or as to any other ground. The Board is not required to give any reason for any decision or determination it makes.

5. Exchange controls and the Takeover Code

5.1 Each of the Company and the Insurer has been designated as "non-resident" for Bermuda exchange control purposes by the BMA. Where a company is so designated, it is free to deal in currencies of any other country outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the BMA is required for the issue of any securities (such as shares, warrants or options) by the Company and the subsequent transfer of such securities. In granting such permission, the BMA accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the Company can issue or transfer any further securities in excess of the amounts already approved, it must obtain the prior consent of the BMA.

5.2 Persons resident in Bermuda for Bermuda exchange control purposes may require the prior approval of the BMA in order to acquire the Common Shares offered hereunder. Upon Admission and for so long as the Common Shares continue to be admitted to trading on AIM, the Common Shares may be freely issued and transferred without further consent of the BMA, pursuant to a general permission given by the BMA under the Exchange Control Act 1972 which permits such free issue and transferability provided that voting securities of the Company remain so admitted, subject to the

condition that the issue or transfer is to and among persons not resident in Bermuda for exchange control purposes. The Company has received a direction from the Bermuda Minister of Finance that Part II and section 35 of the Act shall not apply to the offering hereby being made, and accordingly, no prospectus has been prepared or filed in Bermuda. The BMA, the Bermuda Registrar of Companies, and the Minister of Finance in Bermuda accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed herein.

5.3 The Company is not subject to the Takeover Code and the rules governing substantial acquisitions of shares. Accordingly, any person or persons acting in concert will be able to acquire shares in the Company which, when taken together with the shares already held by them, carry 30 per cent. or more of the voting rights in the Company without being required to make general offer for the entire issued share capital of the Company. Additionally, any party intending to acquire all or a substantial part of the issued share capital of the Company will not be obliged to comply with the provisions of the Takeover Code as to announcements, equality of treatment for shareholders as to the value and type of consideration offered, and will not be subjected to the scrutiny and sanctions of the Panel on Takeovers and Mergers. The Bye-laws contain certain takeover protections, although these will not provide the full protections afforded by the Takeover Code. The relevant provisions of the Bye-laws are summarised in paragraphs 4.19 of this Part 9 – Additional Information.

5.4 The following provisions of the Act apply in relation to acquisition of 90 per cent. or 95 per cent. of the shares of a Bermuda company:

5.4.1 section 102 of the Act has application where a scheme or contract involving the transfer of shares has been approved by the holders of 90 per cent. of the shares of a Bermuda company to be transferred within four months of the offer. The offeror can then give notice in the prescribed form to any dissenting shareholder(s) that it desires to acquire their shares, and upon such notice being given to the offeror, unless on an application made by the dissenting shareholder (within one month from the date on which the notice was given) the Supreme Court of Bermuda thinks fit to order otherwise, shall be entitled and bound to mandatorily acquire the dissenting shareholder(s) holdings; and

5.4.2 under section 103 of the Act, a holder of 95 per cent. of the shares of a Bermuda company can, on giving notice to the minority shareholders, force them to sell their interest to the 95 per cent. shareholders provided that the terms offered are the same for all of the holders of the shares whose acquisition is involved. The 5 per cent. shareholders can apply to the Supreme Court of Bermuda for an appraisal of their shares. Once notice has been given, the acquiring shareholder is bound to acquire the outstanding shares on the terms set out in the notice.

6. Directors' and other interests

6.1 The interests in the issued share capital of the Company upon Admission which (i) are interests of the Directors which have been notified by the relevant Directors to the Company or which (ii) are interests which would be required to be notified to the Company by a Director pursuant to sections 324 to 328 of the English Act if the Company had been incorporated under the English Act and which have been so notified by the relevant Directors, will be as follows (all such interests being beneficial unless otherwise noted):

Directors:	*Number of Common Shares*	*Percentage of issued share capital*	*Number of Common Shares under Warrants*
Colin Alexander	–	–	–
Richard Brindle	300,000	0.1620%	10,146,354
Neil McConachie	20,000	0.0108%	962,150
Ralf Oelssner	–	–	–
Robert Spass	–	–	–
William Spiegel	63,240	0.0341%	455,385
Barry Volpert	–	–	–

As noted in paragraph 8.1.2 of Part 2 – Information on the Group, Mr Spass is the chairman of the Board and a partner and co-founder of Capital Z, a private equity fund specialising in the financial services industry; Mr Spiegel is the President of Cypress, which is a private equity investor; and Mr Volpert is a co-founder and managing member, chairman and chief executive officer of Crestview LLC which is the general partner of Crestview Partners, L.P. a private equity firm. The respective interests of Capital Z, Cypress and Crestview Partners, directly or indirectly, in 3 per cent. or more of the issued common share capital of the Company are set out in paragraph 6.2 below.

6.2 The direct or indirect interests (within the meaning of the English Act) in the issued share capital of the Company upon Admission of the Initial Founders (of which the Company and the Directors are aware) will be as set out below and in paragraph 6.1 above (including those interested in 3 per cent. or more of the issued common share capital of the Company). The information below excludes individuals to whom SAB have transferred Common Shares.

Name	*Number of Common Shares*	*Percentage of issued share capital*
Caisse de Dépôt et Placement du Québec	17,986,000	9.7109%
Capital Z Lancashire Partners, L.P.	17,973,550	9.7042%
Crestview Capital Partners, L.P.	9,605,613	5.1862%
Crestview Capital Partners (ERISA), L.P.	773,799	0.4178%
Crestview Capital Partners (PF), L.P.	1,665,878	0.8994%
Crestview Holdings (TE), L.P.	663,252	0.3581%
Crestview Offshore Holdings (Cayman), L.P.	2,291,458	1.2372%
Cypress Lancashire, L.P.	9,890,000	5.3398%
First Plaza Group Trust for the benefit of pools PMI 127-130	4,000,000	2.1597%
Moore Global Fixed Income Fund (Master) Ltd.	9,168,088	4.9500%
Moore Macro Fund, L.P.	9,168,088	4.9500%
OZ Europe Master Fund, Ltd.	6,197,627	3.3462%
OZ Master Fund, Ltd.	12,138,549	6.5538%
SAB Capital Partners, L.P.	6,366,450	3.4373%
SAB Capital Partners II, L.P.	116,994	0.0632%
SAB Overseas Master Fund, L.P.	6,516,556	3.5184%

In addition, the following parties will receive Warrants to purchase the Common Shares in the following percentages of the Fully Diluted Common Share Capital: Capital Z 2.4282 per cent., Crestview Partners 0.4655 per cent., Cypress 1.1136 per cent., Moore Capital 1.1131 per cent., Och Ziff 1.1131 per cent., SAB 0.6482 per cent. and Red Rose 0.1000 per cent.

6.3 Save as disclosed in this document and so far as the Company is aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

6.4 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors or their connected persons.

6.5 The Company entered into a general management agreement (further described at paragraph 16.7 of this Part 9 – Additional Information) dated 21 November 2005 with International Advisory Services Ltd of which Colin Alexander is senior vice-president.

6.6 Save as disclosed in this document, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company since its incorporation on 12 October 2005.

7. Directors' service agreements and other information

Save as set out below, there are no existing or proposed service contracts between any of the Directors and the Company or any member of the Group providing for benefits upon termination of employment.

7.1 ***Executive Directors***

7.1.1 Richard Brindle has entered into an employment agreement with the Company dated 9 December 2005, conditional upon the grant of a Work Permit by the Bermuda Ministry of Labour and Home Affairs within three months from the date of the agreement, pursuant to which Richard Brindle is employed as Chief Executive Officer and Chief Underwriting Officer. Richard Brindle was appointed as a director of the Company on 13 October 2005 and has served as a director since that date. Richard Brindle's gross annual salary at the time of his appointment under the terms of this service agreement will be US$675,000. In addition, he will be eligible to participate in the bonus plans as described in paragraph 17 of Part 2 – Information on the Group. Richard Brindle will also have the right to participate in a suitable pension arrangement in accordance with Bermuda law and normal health and welfare benefits. The agreement also provides that he is entitled to 30 working days' paid holiday per calendar year (in addition to usual public holidays). The agreement contains restrictive covenants which apply to Richard Brindle after its termination. For six months after the termination of the agreement he is prevented from working for any competing business in Bermuda and for 12 months after the termination of the agreement he is prevented from soliciting or dealing with clients or poaching directors or employees. The agreement is for a fixed period of three years commencing on 9 December 2005, but subject to six months' notice of termination by either party at any time.

Richard Brindle has entered into an employment agreement with Lancashire Marketing dated 12 December 2005. This agreement is drafted in essentially the same terms as the employment agreement referred to above except that it is not conditional. His gross annual salary at the time of his appointment under this contract will be the sterling equivalent of US$225,000. This contract contains the same restrictive covenants but they apply in Bermuda and the European Economic Community. The agreement is for a fixed period of three years commencing on 12 December 2005, but subject to six months' notice of termination at any time.

Upon termination of his service agreement, Richard Brindle is entitled to six months' notice, and in circumstances whereby his service agreement is terminated by reason of ill-health, unsound mind or he is admitted as a mental patient, he will also be entitled to receive 12 months' salary.

7.1.2 It is anticipated that Neil McConachie will enter into an employment agreement with the Company at the beginning of February 2006, under which Neil McConachie will be appointed as Chief Financial Officer and Chief Operating Officer. Pursuant to this employment agreement, Neil McConachie's gross annual salary will be US$300,000. In addition, he will be eligible to participate in the bonus plans as described in paragraph 17 of Part 2 – Information on the Group. The other terms of the employment contract, its restrictive covenants and its termination provisions will be essentially similar to those of the employment agreement with the Chief Executive Officer. The agreement will be for a fixed period of three years commencing on the date agreed between Mr McConachie and the Company, but subject to six months' notice of termination at any time given by either party.

7.2 ***Non-Executive Directors***

It is proposed that the appointments of Robert Spass, William Spiegel and Barry Volpert as Non-Executive Directors will be effective upon Admission. In addition, Barry Volpert's appointment as a Non-Executive Director is conditional upon Crestview Partners' Subscription for Common Shares becoming wholly unconditional.

Each of the Non-Executive Directors (being Messrs Alexander, Oelssner, Spass, Spiegel and Volpert) has or will enter into a letter of appointment with the Company under the terms of which they have each agreed or will agree to act as a Non-Executive Director of the Company, for a fee to be determined by the remuneration committee of the Board. The letters of appointment for Messrs Alexander, Spass and Spiegel are dated 9 December 2005. The letter of appointment for Mr Oelssner is dated 12 December 2005 and the letter of appointment for Mr Volpert will be signed upon Admission provided that the Crestview Partners New Subscription Agreements have become wholly unconditional. The relevant appointment will initially last until the 2009 annual general meeting of the Shareholders (for a Class I Director), the 2008 annual general meeting of the Shareholders (for a Class II Director) or the 2007 annual general meeting of the Shareholders (for a Class III Director), unless otherwise terminated earlier pursuant to the Bye-Laws of the Company or six months' written notice of termination under the terms of the letters of appointment. Although Mr Alexander will be classified as a Class III director his term of office may also be terminated upon two weeks notice by the Company (whereupon he will promptly tender a written resignation to the Company). There are provisions for two terms of three years, and in exceptional circumstances, an additional period. The three year term is contingent upon re-election of the Director at annual general meetings of the Company. A commitment of one day per calendar month is anticipated (to attend board meetings, annual general meetings and annual board "away days"), although more than one meeting per month is expected during the first year after Admission.

Those Non-Executive Directors who serve on committees of the Board may also be paid a further fee for such appointment and any such fee will be determined by the remuneration committee.

The responsibilities outlined in the appointment letter are consistent with public company board duties; that is stewardship of the Company and close monitoring of the Company's senior management's performance and judgement.

The appointment letter also contains provisions requiring the Director to declare conflicts of interest to the Chairman and that the Director is to comply with statutory obligations relating to confidentiality and price sensitive information.

7.3 ***Aggregate remuneration***

The minimum and maximum aggregate remuneration payable by the Group to Richard Brindle and Neil McConachie for the financial period ending 31 December 2006 (under the arrangements referred to in paragraph 7.1.1 of this Part 9 and under the anticipated arrangements referred to in paragaph 7.1.2 of this Part 9) are estimated to be approximately US$2,056,250 and US$3,975,000, respectively. This is on the assumption that Mr McConachie's employment with the Company commences on 1 February 2006, and takes into account the minimum and maximum amounts payable under the basic bonus plan summarised in paragraph 17.1 of Part 2 – Information on the Group. In addition the

Executive Directors are entitled to participate in the additional bonus plan summarised in paragraph 17.2 of Part 2 – Information on the Group which is not illustrated in the foregoing. This calculation also does not account for the entitlements to participate in an occupational pension scheme (which is not established as at the date of this document) nor for the value of the normal health and welfare benefits to which the Executive Directors are entitled. It excludes fees payable to the Non-Executive Directors as they are to be determined by the remuneration committee of the Board.

7.4 ***Additional information on the Board***

7.4.1 In addition to directorships of the Company, the Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

Director	*Current Directorships/ Partnerships*	*Past Directorships/ Partnerships*
Richard Brindle	Crossflow Limited Downside Up Limited Lancashire Insurance Company Limited Lancashire Insurance Marketing Services Limited Prospect Entertainment Limited	A Kind of Hush Limited Ace Leadenhall Limited Ace Underwriting Agencies Limited Ascot Underwriting Limited Brinthom Limited The First Film Company Limited Heathcote Advisers Limited Risk2Risk Limited 3 St Mary's Terrace Limited
Colin Alexander	Agri-Insurance Company Limited Ambrose Insurance Group, Limited Anglo-Irish Insurances Limited Atlantic Management Services Limited Atlantic General Insurance Limited Atlantic Reinsurance Limited Belmont Insurance Company Limited Celtic Insurance Company Limited Cookham Insurance Group Limited FICL Limited Financial Reassurance Company Limited Grand Island Insurance Company Great Alliance Insurance Limited Great Republic Assurance (SAC) Limited Great Republic Indemnity (SAC) Limited GRIL Private Trustee Company Limited MTM Group Limited Par Holdings, Limited Professional Agencies Reinsurance Limited Premium Securities Limited Psychiatrists' Mutual Insurance Company, Inc. Reunited Reinsurance Limited SPDA Limited Stark Strategic Cat Fund Limited Transportation Trucking Insurance Company, Limited Travel Re-Insurance Partners Limited Twin Oaks Insurance Company, Limited	Blackwolf Insurance Company Limited Chattahoochee Insurance Company Limited Columbine Insurance Company Limited Heartland Insurance Company Limited Itasca Insurance Limited Mountain Laurel Insurance Company Limited New England Insurance Company Limited Shinnecock Insurance Limited The Great Midwest Insurance Company Limited The Keystone State Insurance Company Limited Crab Apple Insurance Company Limited Garden State Insurance Company Limited Illiana Insurance Company Limited Liberty Bell Insurance Limited Lone Star Insurance Company Limited The Great Southeast Insurance Company, Limited Ohio Cap Insurance Company Limited Sunshine Insurance Limited Oliveri Reinsurance Limited Oxford Health Plans (Bermuda), Limited Novia (Bermuda), Limited

Director	*Current Directorships/ Partnerships*	*Past Directorships/ Partnerships*
Ralf Oelssner	Gerling Vertrieb Industrie Gerling Vertrieb Firmen & Privat Industrie Pensions Verein Nurnberger Beamten Allg. Versicherung Nurnberger Beamten Leben Versicherung	None
Neil McConachie	Montpelier Agency Limited Rockridge Reinsurance Limited	None
Robert Spass	Aames Financial Corp. Capital Z Holdings LLC Capital Z Holdings 2 LLC Capital Z Investment Management, Ltd. Capital Z Lancashire GP, Ltd. Capital Z Management, LLC Capital Z Partners, Ltd. Capital Z Partners II, Ltd. CERES Group Inc. Endurance Specialty Holdings Limited Universal American Financial Corp. USI Holdings Corporation	American Capital Access Holdings, Inc. British Marine Insurance Associates Catlin Westgen Group Limited efinanceworks, LLC and its affiliates Highlands Insurance Group, Inc. Kinexus Corporation Lending Tree, Inc. Superior National Insurance Group, Inc.
William Spiegel	Catlin Group Limited Cypress Associates L.P. Cypress Associates II LLC Cypress Associates II (Cayman) L.P. Financial Guaranty Insurance Co. MedPointe Inc. Montpelier Re Holdings Limited Scottish Re Group Limited	Cinemark USA
Barry Volpert	Crestview Advisers LLC Managing Member, Chairman and CEO of Crestview LLC, the General Partner of Crestview Partners, L.P.	Goldman Sachs International Goldman Sachs (a partnership) LNG Holdings S.A. Trillium Westminster Health Care Wincor-Nixdorf GmbH

7.4.2 At the date of this document except as disclosed herein none of the Directors has:

7.4.2.1 had any unspent convictions in relation to indictable offences;

7.4.2.2 been declared bankrupt or entered into an individual voluntary arrangement;

7.4.2.3 been a director of any company at the time or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

7.4.2.4 been a partner in a partnership at the time of, or within twelve months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;

7.4.2.5 had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the 12 months preceding, any assets thereof being the subject of a receivership; or

7.4.2.6 been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.4.3 From 1992 to May 2002, Mr Spass was a director of Superior National Insurance Group, Inc. ("SN"), which is an investment of Capital Z. On 3 March 2000 the California Department of Insurance seized the assets and operations of SN's California domiciled insurance subsidiaries. On 26 April 2000, SN sought Chapter 11 protection under US federal bankruptcy laws. In connection with the SN insolvency, Mr Spass (together with many other defendants, including other directors of SN) was sued in his capacity as a director of SN. A motion to dismiss him from the lawsuit was made, and the judge in this case granted the motion as a result of which Mr Spass is no longer a defendant in this action.

7.4.4 From 1996 until 2003, Mr Spass was a director of Highlands Insurance Group, Inc. ("HIG"), an insurance holding company. On 31 October 2002, HIG filed a voluntary petition for bankruptcy under the US federal bankruptcy laws. In connection with the HIG insolvency, Mr Spass (together with many defendants including other HIG directors) was sued in his capacity as a director of HIG.

7.4.5 In November 1999, the partnerships of which Mr Spiegel was a limited partner of the general partner held Genesis ElderCare Corp. stock ("ElderCare"). This investment in ElderCare was restructured so that the partnership then held stock in Genesis Health Ventures Inc. and no longer held stock in ElderCare. Genesis Health Ventures Inc. filed for bankruptcy in June 2000 and emerged in October 2001. All equity securities held by the partnership were cancelled.

8. Long Term Incentive Plan

8.1 The Board has adopted the Long Term Incentive Plan to take effect on Admission.

8.2 The Long Term Incentive Plan has been set up to enable certain Directors and employees of the Group to be granted Options.

8.3 The main features of the Long Term Incentive Plan (which is not approved by HMRC) are summarised below:

8.3.1 *Eligibility*

Options may be granted under the Long Term Incentive Plan at the discretion of the remuneration committee to any full-time executive director or employee of the Group (the "Optionholder"), provided that the individual is not within six months of retirement.

8.3.2 *Plan limit*

The Options that may be granted under the Long Term Incentive Plan from time to time are limited to 5 per cent. of the common share capital of the Company in issue at the date of grant of the Options.

8.3.3 *Grant of Options*

Options may be granted at any time at the discretion of the remuneration committee other than during a close period (as defined in the AIM Rules).

No Option may be granted after the tenth anniversary of the adoption of the Long Term Incentive Plan.

8.3.4 *Exercise price*

The price payable per Common Share on the exercise of an Option (the "Exercise Price") shall be equal to or greater than the Market Value ("MV") of the Common Shares on the date the Option is granted. The MV shall be the average of the middle market quotations for the

twenty dealing days preceding the grant or, if the Common Shares are not listed on AIM such other price as determined by the remuneration committee at the date of grant or if the grant is within twenty days of Admission shall be the Placing Price. The Exercise Price shall not in any circumstances be less than the nominal value of a Common Share.

In the event of a variation of the share capital of the Company, the remuneration committee may make such adjustments to the Exercise Price and/or number and/or nominal value of the Common Shares comprised in each Option as it considers appropriate in its absolute discretion.

There are no performance conditions to be satisfied before exercise of an Option.

8.3.5 *Exercise of Options*

The Options will vest as to 25 per cent. on the first anniversary, 50 per cent. on the second anniversary, 75 per cent. on the third anniversary and 100 per cent. on the fourth anniversary of the date of grant provided that the Optionholder remains in the employment of the Group at the relevant anniversary.

If the Optionholder leaves employment for any reason the Optionholder may exercise the vested portions of the Options within six months of leaving employment and the unvested portions of the Options shall lapse. If the Optionholder dies his personal representatives may exercise the vested portions of the Options within 12 months of death and the unvested portions of the Options shall lapse.

If there is a change of control in the Company, or any voluntary winding up, reconstruction or amalgamation, all the vested and unvested portions of the Options will be exercisable within six months of that event.

8.3.6 *Amendments and general*

The Long Term Incentive Plan may be altered at any time, save that certain amendments to the advantage of participants may not be made without the Shareholders' approval. No Shareholders' approval is required for minor alterations or additions to benefit the administration of the Long Term Incentive Plan to take account of any changes in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for the Optionholder, the Company or the Group.

Options shall not be transferable (subject to certain rights of exercise by the Optionholder's person representatives). Benefits under the Long Term Incentive Plan are not pensionable.

8.4 ***ABI Guidelines/Combined Code***

Other than as set out above, the Long Term Incentive Plan does not contain the following provisions which are included in the current guidelines on executive remuneration published by the Association of British Insurers or in the Combined Code, namely: a requirement that the vesting of the Options should be subject to the satisfaction of performance criteria and related requirements for the performance conditions including what happens on a change of control or in relation to early leavers; a requirement that Options should be in grants phased on an annual basis; a requirement that the Options should have a vesting period of at least three years; a requirement that the vesting of Options should be on a *pro rata* basis depending on what period of the vesting period has expired before the change of control; a requirement that the Options may only be granted in the 42 day period following the publication of results for the Company (although under the Plan the grant of Options may not be made during a close period); a requirement that the vesting of Options should be on a *pro rata* basis depending on what period of the vesting period has expired before early exercise on retirement.

9. Group Structure

The Company will on Admission have the following subsidiaries incorporated in the following jurisdictions of which it owns 100 per cent. of the issued share capital directly:

Name of subsidiary	*Place of Incorporation*	*Date of Incorporation*
Lancashire Insurance Company Limited	Bermuda	28 October 2005
Lancashire Insurance Marketing Services Limited	England and Wales	7 October 2005

10. Taxation

The following summary of the taxation of the Company, the taxation of the Insurer and the taxation of the Shareholders is based upon current law and is for general information only. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

10.1 ***Certain UK tax consequences***

The following paragraphs are intended as a general guide only for Shareholders of the Company who are resident or ordinarily resident individuals or companies resident in the UK for tax purposes and who hold Common Shares of the Company as investments and not in the course of a trade, and are based on current legislation and HMRC practice at the date of this document. Prospective investors who are in any doubt about their tax position, or who are subject to taxation in a jurisdiction other than the UK, should consult their own professional independent adviser immediately.

10.1.1 *General*

Lancashire Marketing is a company incorporated and managed in the UK and is, therefore, resident in the UK for UK corporation tax purposes and will be subject to UK corporation tax on its worldwide profits (including revenue profits and capital gains), whether or not such profits are remitted to the UK. The maximum rate of UK corporation tax is currently 30 per cent. on profits of whatever description. Currently, no UK withholding tax applies to any dividends paid by Lancashire Marketing. Dividends received by the Company should be exempt from UK corporation tax pursuant to the exemption contained in section 208 of the Income and Corporation Taxes Act 1988 ("ICTA").

Neither the Company nor the Insurer is incorporated in the UK. Accordingly, neither the Company nor the Insurer should be treated as being resident in the UK unless either of the companies' central management and control is exercised in the UK. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. The directors of both the Company and the Insurer intend to manage their affairs so that neither of the companies is resident in the UK for tax purposes.

A company not resident in the UK for corporation tax purposes can nevertheless be subject to UK corporation tax if it carries on a trade through a permanent establishment in the UK but the charge to UK corporation tax is limited to profits (including revenue profits and capital gains) attributable directly or indirectly to such permanent establishment.

The directors of each member of the Group, other than Lancashire Marketing (which should be treated as resident in the UK by virtue of being incorporated and managed there), intend to operate in such a manner so that neither the Company nor the Insurer carries on a trade through a permanent establishment in the UK. Nevertheless, because neither case law nor UK statute definitively defines the activities that constitute trading in the UK through a permanent establishment, HMRC might contend that either or both of the Company and the Insurer is/are trading in the UK through a permanent establishment in the UK.

The UK has no income tax treaty with Bermuda. There are circumstances in which companies that are neither resident in the UK nor entitled to the protection afforded by a double tax treaty between the UK and the jurisdiction in which they are resident may be exposed to income tax in the UK (other than by deduction or withholding) on the profits of

a trade carried on in the UK even if that trade is not carried on through a permanent establishment. However, the directors of each of the Company and the Insurer intend to operate in such a manner that neither the Company nor the Insurer will fall within the charge to income tax in the UK (other than by deduction or withholding) in this respect.

If either or both of the Company and the Insurer were treated as being resident in the UK for UK corporation tax purposes, or if either or both of the Company and the Insurer were to be treated as carrying on a trade in the UK through a permanent establishment, the results of the Group's operations and a potential investor's investment could be materially adversely affected.

10.1.2 *Taxation of chargeable gains*

If a shareholder disposes of Common Shares, a liability to UK tax on chargeable gains may arise, depending on the shareholder's circumstances. In the case of individuals and trustees, the chargeable gain may be reduced as a result of taper relief, the amount of which is available depends on various factors, in particular the length of the period of ownership of the Common Shares. Companies are not entitled to taper relief but are eligible for indexation allowance which may also reduce the chargeable gain.

10.1.3 *Dividends*

Except in the case of Common Shares held by individuals or companies dealing in shares, dividends paid by the Company will be assessable to UK income tax under section 402 of the Income Tax (Trading and Other Income) Act 2005 or corporation tax under section 18 of ICTA (Schedule D Case V).

10.1.4 *Stamp duty and stamp duty reserve tax*

Issue

No stamp duty or SDRT should arise in respect of the issue of Common Shares or Depositary Interests.

Transfer

An agreement to transfer Common Shares will not be subject to SDRT provided that the Company's share register is kept outside the UK. A conveyance or transfer on sale of Common Shares will not be subject to stamp duty provided that the instrument of transfer is not executed in the UK and does not relate to any property situate, or any matter or thing done, or to be done, in the UK.

No stamp duty should be payable on the transfer of Depositary Interests within CREST. However, SDRT will be payable at the rate of 0.5 per cent. (one half of one per cent.) of the amount or value of the consideration when there is a change in the beneficial ownership of Depositary Interests. This liability to SDRT will generally be met by the new beneficial owner.

10.2 ***Certain Bermuda tax consequences***

In the opinion of Conyers Dill & Pearman, special Bermuda counsel to the Company, there will be no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable in respect of the issue or delivery of the Placing Shares pursuant to the Placing. In addition, as of the date of this document, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable in respect of capital gains realised on a disposition of Common Shares or in respect of distributions by the Company with respect to Common Shares. Furthermore, each of the Company and the Insurer has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act of 1966 an undertaking that, in the event of there being enacted in

Bermuda any legislation imposing any tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital assets, gain or appreciation or any tax in the nature of an estate or inheritance tax or duty, the imposition of such tax shall not be applicable to the Company or the Insurer or any of their operations, nor to the Common Shares nor to obligations of the Company or the Insurer until the year 2016. This undertaking applies to the Common Shares. It does not, however, prevent the application of Bermuda taxes to persons ordinarily resident in Bermuda.

10.3 ***Certain US tax consequences***

The following legal discussion (including and subject to the matters and qualifications set forth in such summary) is based upon the advice of LeBoeuf, Lamb, Greene & MacRae LLP, New York, New York. The advice of such firm does not include any factual or accounting matters, determinations or conclusions, including amounts and computations of RPII and amounts of components thereof or facts relating to the Group's business or activities. The tax treatment of a holder of Common Shares, or of a person treated as a holder of Common Shares for US federal income, state, local or non-US tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to the beliefs, expectations and conditions of the Company and the Insurer as to the application of such tax laws or facts represent the view of management as to the application of such laws and do not represent the opinions of counsel. THE US FEDERAL TAX ADVICE CONTAINED HEREIN IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE COMMON SHARES, AND IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING US TAX PENALTIES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THEIR PARTICULAR CIRCUMSTANCES CONCERNING THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF OWNING COMMON SHARES.

10.3.1 *Taxation of the Company, the Insurer and Lancashire Marketing*

The following discussion is a summary of all material US federal income tax considerations relating to the Group's operations. A foreign corporation that is engaged in the conduct of a US trade or business will be subject to US tax as described below, unless entitled to the benefits of an applicable tax treaty. Whether business is being conducted in the US is an inherently factual determination. Because the Code, regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the US, the Directors cannot be certain that the IRS will not contend successfully that the Company, the Insurer and/or Lancashire Marketing are or will be engaged in a trade or business in the US. A foreign corporation deemed to be so engaged would be subject to US income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a US corporation, except that a foreign corporation is generally entitled to deductions and credits only if it timely files a US federal income tax return. The Insurer intends to file protective US federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that it is subject to US federal income tax. The highest marginal federal income tax rates currently are 35 per cent. for a corporation's effectively connected income and 30 per cent. for the additional "branch profits" tax.

If the Insurer is entitled to the benefits under the income tax treaty between Bermuda and the US (the "Bermuda Treaty"), the Insurer would not be subject to US income tax on any income found to be effectively connected with a US trade or business unless that trade or business is conducted through a permanent establishment in the US. No regulations interpreting the Bermuda Treaty have been issued. The Insurer currently intends to conduct

its activities so that it does not have a permanent establishment in the US, although the Directors cannot be certain that they will achieve this result.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (i) more than 50 per cent. of its shares are owned beneficially, directly or indirectly, by individual residents of the US or Bermuda or US citizens; and (ii) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the US or Bermuda nor US citizens. The Directors cannot be certain that the Insurer will be eligible for Bermuda Treaty benefits immediately following the Placing or in the future because of factual and legal uncertainties regarding the residency and citizenship of the Company's shareholders. The Company would not be eligible for treaty benefits because it is not an insurance company. Accordingly, the Company and the Insurer intend to conduct substantially all of their foreign operations outside the US and to limit their US contacts so that neither the Company nor the Insurer should be treated as engaged in the conduct of a trade or business in the US.

Foreign insurance companies carrying on an insurance business within the US have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of US risk insured or reinsured by such companies. If the Insurer is considered to be engaged in the conduct of an insurance business in the US and it is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy the limitations on treaty benefits discussed above), the Code could subject a significant portion of the Insurer's investment income to US income tax. In addition, while the Bermuda Treaty clearly applies to premium income, it is uncertain whether the Bermuda Treaty applies to other income such as investment income. If the Insurer is considered engaged in the conduct of an insurance business in the US and is entitled to the benefits of the Bermuda Treaty in general, but the Bermuda Treaty is interpreted to not apply to investment income, a significant portion of the Insurer's investment income could be subject to US income tax.

Under the income tax treaty between the UK and the US, a UK company is entitled to the benefits of the UK Treaty (the "UK Treaty") only if various complex requirements can be satisfied. Broadly, these requirements include (i) during at least half of the days during the relevant taxable period, at least 50 per cent. of Lancashire Marketing's stock must be beneficially owned, directly or indirectly, by citizens or residents of the US and the UK, and less than 50 per cent. of Lancashire Marketing's gross income for the relevant taxable period is paid or accrued, directly or indirectly, to persons who are not US or UK residents in the form of payments that are deductible for purposes of UK taxation; (ii) with respect to specific items of income, profit or gain derived from the US, if such income, profit or gain is considered to be derived in connection with, or incidental to Lancashire Marketing's business conducted in the UK; or (iii) at least 50 per cent. of the aggregate vote and value of its shares is owned directly or indirectly by five or fewer companies the principal class of shares of which is listed and regularly traded on a recognised stock exchange. Although the Directors cannot be certain that Lancashire Marketing will be eligible for treaty benefits under the UK Treaty because of factual and legal uncertainties regarding (i) the residency and citizenship of the Company's shareholders, and (ii) the interpretation of what constitutes income incidental to or connected with a trade or business in the UK, they will endeavour to so qualify. As a result, Lancashire Marketing should be subject to US federal income tax on its income found to be effectively connected with a US trade or business only if such income is attributable to the conduct of a trade or business carried on through a permanent establishment in the US and the branch profits tax will not apply. Lancashire Marketing has conducted and intends to conduct its activities in a manner so that it should not have a permanent establishment in the US, although the Directors cannot be certain that they will achieve this result.

Under the UK Treaty, the additional US branch profits tax may be imposed at a rate of up to 5 per cent. absent an applicable exception to the extent Lancashire Marketing has a permanent establishment in the US.

Foreign corporations not engaged in a trade or business in the US are nonetheless subject to US income tax imposed by withholding on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the US (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. Generally under the UK Treaty the withholding rate is reduced (i) on dividends from less than 10 per cent. owned corporations to 15 per cent.; (ii) on dividends from 10 per cent. or more owned corporations to 5 per cent.; and (iii) on interest to 0 per cent.. The Bermuda Treaty does not reduce the US withholding rate on US-sourced investment income.

The US also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the US. The rates of tax applicable to premiums paid to the Insurer are 4 per cent. for insurance premiums and 1 per cent. for reinsurance premiums.

10.3.2 *Taxation of holders of Common Shares*

The following summary sets forth the material US federal income tax considerations related to the purchase, ownership and disposition of the Common Shares. Unless otherwise stated, this summary deals only with Shareholders that are US Persons (as defined below) who purchase their shares in this Placing and who hold their Common Shares as capital assets within the meaning of section 1221 of the Code. The following discussion is only a discussion of the material US federal income tax matters as described herein and does not purport to address all of the US federal income tax consequences that may be relevant to a particular Shareholder in light of such Shareholder's specific circumstances. In addition, the following summary does not address the US federal income tax consequences that may be relevant to special classes of Shareholders, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers or traders in securities, tax exempt organisations, expatriates, investors in pass through entities, persons who are considered with respect to the Company or the Insurer as "United States shareholders" for purposes of the controlled foreign corporation ("CFC") rules of the Code (generally, a US Person, as defined below, who owns or is deemed to own 10 per cent. or more of the total combined voting power of all classes of the Company's or the Insurer's shares entitled to vote (that is 10 per cent. US Shareholders)), or persons who hold their shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon the Code, the Treasury Regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the US or of any foreign government. Persons considering making an investment in the Common Shares should consult their own tax advisers concerning the application of the US federal tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction, prior to making such investment.

If a partnership holds the Common Shares, the tax treatment of the partners will generally depend on the status of the partner and the activities of the partnership. If a potential investor is a partner of a partnership owning Common Shares, it should consult its tax adviser.

For purposes of this discussion, the term "US Person" means: (i) a citizen or resident of the US; (ii) a partnership or corporation, or entity treated as a corporation, created or organised in or under the laws of the US, or any political subdivision thereof; (iii) an estate the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust if

either (a) a court within the US is able to exercise primary supervision over the administration of such trust and one or more US Persons have the authority to control all substantial decisions of such trust or (b) the trust has a valid election in effect to be treated as a US Person for US federal income tax purposes or (c) any other person or entity that is treated for US federal income tax purposes as if it were one of the foregoing.

10.3.2.1 *Taxation of dividends*

Subject to the discussions below relating to the potential application of the CFC, RPII and PFIC rules, cash distributions, if any, made with respect to the Common Shares will constitute dividends for US federal income tax purposes to the extent paid out of current or accumulated earnings and profits of the Company (as computed using US tax principles). Dividends paid by the Company will not be eligible for reduced rates of tax as qualified dividend income because the Common Shares will not be treated as readily tradeable on an established securities market in the US. Additionally, such dividends will not be eligible for the dividends received deduction. To the extent such distributions exceed the Company's earnings and profits, they will be treated first as a return of the Shareholder's basis in their Common Shares to the extent thereof, and then as gain from the sale of a capital asset.

10.3.2.2 *Classification of the Company, the Insurer or Lancashire Marketing as controlled foreign corporations*

Each 10 per cent. US Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC's taxable year, must include in its gross income for US federal income tax purposes its *pro rata* share of the CFC's "subpart F income", even if the subpart F income is not distributed. A foreign corporation is considered a CFC if 10 per cent. US Shareholders own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (that is "constructively")) more than 50 per cent. of the total combined voting power of all classes of voting stock of such foreign corporation, or more than 50 per cent. of the total value of all stock of such corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25 per cent. of the total combined voting power of all classes of stock or more than 25 per cent. of the total value of all stock is owned by 10 per cent. US Shareholders on any day of the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts exceeds 75 per cent. of the gross amount of all premiums or other consideration in respect of all risks. A "10 per cent. US Shareholder" is a US Person who owns (directly, indirectly through foreign entities or constructively) at least 10 per cent. of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. The Directors believe that because of the anticipated dispersion of the Company's share ownership, provisions in the Bye-laws that limit voting power and other factors, no US Person who owns Common Shares of the Company directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities, or constructively) 10 per cent. or more of the total voting power of all classes of shares of the Company, the Insurer or Lancashire Marketing. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

10.3.2.3 *The RPII CFC Provisions*

The following discussion generally is applicable only if the RPII of the Insurer, determined on a gross basis, is 20 per cent. or more of the Insurer's gross insurance income for the taxable year and the 20 per cent. Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any taxable year in which the Insurer meets either the 20 per cent. Ownership Exception or the 20 per cent. Gross Income Exception (as defined below). Although the Directors cannot be certain, the Directors believe that the Insurer should meet the 20 per cent. Ownership Exception and the 20 per cent. Gross Income Exception for each tax year for the foreseeable future. Additionally, as the Company is not licensed as an insurance company the Directors do not anticipate that the Company will have insurance income, including RPII.

RPII is any "insurance income" (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "RPII shareholder" (as defined below) or a "related person" (as defined below) to such RPII shareholder. In general, and subject to certain limitations, "insurance income" is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of the Insurer in the income of RPII shareholders, unless an exception applies, the term "RPII shareholder" means any US Person who owns (directly or indirectly through foreign entities) any amount of the Company's shares. Generally, the term "related person" for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50 per cent. in value or more than 50 per cent. in voting power of stock applying certain constructive ownership principles. A corporation's pension plan is ordinarily not a "related person" with respect to the corporation unless the pension plan owns, directly or indirectly through the application of certain constructive ownership rules, more than 50 per cent. measured by vote or value, of the stock of the corporation. The Insurer will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through foreign entities or constructively) 25 per cent. or more of the shares of the Company by vote or value.

(a) RPII exceptions

The special RPII rules do not apply to the Insurer if (i) direct and indirect insureds and persons related to such insureds, whether or not US Persons, are treated as owning (directly or indirectly through entities) less than 20 per cent. of the voting power and less than 20 per cent. of the value of the shares of the Company (the "20 per cent. Ownership Exception"); (ii) RPII, determined on a gross basis, is less than 20 per cent. of the gross insurance income of the Insurer for the taxable year (the "20 per cent. Gross Income Exception"); (iii) the Insurer elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a US trade or business, and to waive all treaty benefits with respect to RPII and meet certain other requirements; or (iv) the Insurer elects to be treated as a US corporation and waives all treaty benefits and meets certain other requirements. Where none of these exceptions applies to the Insurer, each US Person owning (directly or indirectly through foreign entities) any shares in the Company (and therefore, indirectly, in the Insurer) on the last day of the Insurer's taxable year will be required to include in its gross income for US federal income tax purposes its share of the RPII of the Insurer for the portion of the taxable year during which the Insurer was a CFC under the RPII provisions,

determined as if all such RPII were distributed proportionately only to such US Persons at that date, but limited by each such US Person's share of the Insurer's current-year earnings and profits as reduced by the US Person's share, if any, of certain prior-year deficits in earnings and profits. The Insurer intends to operate in a manner that is intended to ensure that it qualifies for the 20 per cent. Gross Income Exception. Although the Directors do not expect that the gross RPII of the Insurer will equal or exceed 20 per cent. of the Insurer's gross insurance income in the foreseeable future, it is possible that they will not be successful in qualifying under this exception.

(b) Computation of RPII

In order to determine how much RPII the Insurer has earned in each taxable year, the Insurer may obtain and rely upon information from its insureds and reinsureds to determine whether any of the insureds, reinsureds or persons related thereto own (directly or indirectly through foreign entities) shares of the Company and are US Persons. The Insurer may not be able to determine whether any of its underlying direct or indirect insureds are shareholders or related persons to such shareholders. Consequently, the Insurer may not be able to determine accurately the gross amount of RPII earned by the Insurer in a given taxable year. For any year in which the 20 per cent. Gross Income Exception and the 20 per cent. Ownership Exception do not apply, the Company may also seek information from its shareholders as to whether beneficial owners of shares at the end of the year are US Persons so that the RPII may be determined and apportioned among such persons; to the extent the Company is unable to determine whether a beneficial owner of shares is a US Person, the Company may assume that such owner is not a US Person, thereby increasing the per share RPII amount for all known RPII shareholders.

If, as expected, for each taxable year the Insurer meets the 20 per cent. Gross Income Exception, RPII shareholders will not be required to include RPII in their taxable income. The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

(c) Apportionment of RPII to US Holders

Every RPII shareholder who owns shares on the last day of any taxable year of the Company in which the 20 per cent. Ownership Exception and the 20 per cent. Gross Income Exception do not apply to the Insurer should expect that for such year it will be required to include in gross income its share of the Insurer's RPII for the portion of the taxable year during which the Insurer was a CFC under the RPII provisions, whether or not distributed, even though such shareholder may not have owned the shares throughout such period. A RPII shareholder who owns shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of the Insurer's RPII.

(d) Basis adjustments

A RPII shareholder's tax basis in its shares will be increased by the amount of any RPII that such shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by the Company out of previously taxed RPII income. The RPII shareholder's tax basis in its

shares will be reduced by the amount of such distributions that are excluded from income.

(e) Uncertainty as to application of RPII

The RPII provisions have never been interpreted by the courts or the US Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. These provisions include the grant of authority to the US Treasury Department to prescribe "such regulations as may be necessary to carry out the purpose of this subsection including ... regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise". Accordingly, the meaning of the RPII provisions and the application thereof to the Insurer is uncertain. In addition, the Directors cannot be certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. Any prospective investors considering an investment in the Common Shares should consult his tax adviser as to the effects of these uncertainties.

10.3.2.4 *Information reporting*

Under certain circumstances, US Persons owning shares in a foreign corporation are required to file IRS Form 5471 with their US federal income tax returns. Generally, information reporting on IRS Form 5471 is required by (i) a person who is treated as a RPII shareholder, (ii) a 10 per cent. US Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation and who owned the stock on the last day of that year; and (iii) under certain circumstances, a US Person who acquires stock in a foreign corporation and as a result thereof owns 10 per cent. or more of the voting power or value of such foreign corporation, whether or not such foreign corporation is a CFC. For any taxable year in which the Company determines that the 20 per cent. Gross Income Exception and the 20 per cent. Ownership Exception do not apply, the Company will provide to all US Persons registered as shareholders of its shares a completed IRS Form 5471 or the relevant information necessary to complete the form. Failure to file IRS Form 5471 may result in penalties.

10.3.2.5 *Tax-Exempt shareholders*

Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includible in income by the tax-exempt entity as unrelated business taxable income. Prospective investors that are tax exempt entities are urged to consult their tax advisers as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organisation that is treated as a 10 per cent. US Shareholder or a RPII Shareholder also must file IRS Form 5471 in the circumstances described above.

10.3.2.6 *Dispositions of Common Shares*

Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, US holders of Common Shares generally should recognise capital gain or loss for US federal income tax purposes on the sale, exchange or other disposition of Common Shares in the same manner as on the sale,

exchange or other disposition of any other shares held as capital assets. If the holding period for these shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 15 per cent. for individuals and 35 per cent. for corporations. Moreover, gain, if any, generally will be a US source gain and generally will constitute "passive income" for foreign tax credit limitation purposes.

Code section 1248 provides that if a US Person sells or exchanges stock in a foreign corporation and such person owned, directly, indirectly through certain foreign entities or constructively, 10 per cent. or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under US federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). The Directors believe that because of the anticipated dispersion of the Company's share ownership, provisions in the Bye-laws that limit voting power and other factors, that no US Shareholder of the Company should be treated as owning (directly, indirectly through foreign entities or constructively) 10 per cent. or more of the total voting power of the Company; to the extent this is the case, the application of Code Section 1248 under the regular CFC rules should not apply to dispositions of Common Shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. A 10 per cent. US Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the US federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, the Company will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10 per cent. US Shareholder or whether the 20 per cent. Gross Income Exception or the 20 per cent. Ownership Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. The Directors believe, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of the Common Shares because the Company will not be directly engaged in insurance business. The Directors cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the US Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of Common Shares. Prospective investors should consult their tax advisers regarding the effects of these rules on a disposition of Common Shares.

10.3.2.7 *Passive foreign investment companies*

In general, a foreign corporation will be a PFIC during a given year if (i) 75 per cent. or more of its gross income constitutes "passive income" (the "75 per cent. test"); or (ii) 50 per cent. or more of its assets produce passive income (the "50 per cent. test"). A foreign corporation, however, will not be treated as a PFIC for its first taxable year in which it has gross income ("Start-up Year"), provided (i) no "predecessor" of the foreign corporation was a PFIC; (ii) it can be established that such foreign corporation will not be a PFIC for either of the first two taxable years following the Start-up Year; and (iii) the foreign corporation is not a PFIC for either of the first two taxable years following the Start-up Year.

If the Company were characterised as a PFIC during a given year, each US Person holding Common Shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their Common Shares, unless such person is a 10 per cent. US Shareholder or made a "qualified electing fund election". In addition, if the Company were considered a PFIC, upon the death of any US individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of their Common Shares that might otherwise be available under US federal income tax laws. In general, a Shareholder receives an "excess distribution" if the amount of the distribution is more than 125 per cent. of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the Common Shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the Shareholder owned the Common Shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the Common Shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the Shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of US federal income tax for such period. In addition, a distribution paid by the Company to US Shareholders that is characterised as a dividend and is not characterised as an excess distribution would not be eligible for reduced rates of tax as qualified dividend income.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules provide that income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business ... is not treated as passive income". The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated as if it "received directly its proportionate share of the income . . ." and as if it "held its proportionate share of the assets . . ." of any other corporation in which it owns at least 25 per cent. of the value of the stock.

The insurance income exception is intended to ensure that income derived by a *bona fide* insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. Under the look-through rule, the Company should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of the Insurer and Lancashire Marketing for purposes of the 75 per cent. test and the 50 per cent. test. It is expected that the income and assets of the Company other than the income generated by the Insurer and the assets held by the Insurer will be *de minimis* in each year of operations with respect to the overall income and assets of the Company and the Insurer. Further, it is expected that for taxable years beginning after 31 December 2005 the Insurer will be predominantly engaged in an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business for purposes of the PFIC rules. As a result, it is believed that the Company should not be treated as a PFIC for its Start-up Year and future taxable years. There can be no certainty, however, as there are currently no regulations regarding the application of the PFIC provisions to an insurance company and new regulations or pronouncements interpreting or clarifying these rules may be forthcoming, that the IRS will not challenge this position and that a court will not sustain such challenge. Prospective investors should consult their tax adviser as to the effects of the PFIC rules.

10.3.2.8 *Foreign tax credit*

Because it is anticipated that US Persons will own a majority of the Common Shares, only a portion of the current income inclusions, if any, under the CFC, RPII

and PFIC rules and of dividends paid by the Company (including any gain from the sale of Common Shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a Shareholder's US foreign tax credit limitations. The Company will consider providing Shareholders with information regarding the portion of such amounts constituting foreign source income to the extent such information is reasonably available. It is also likely that substantially all of the "subpart F income", RPII and dividends that are foreign source income will constitute either "passive" or "financial services" income for foreign tax credit limitation purposes (and for taxable years beginning after 31 December 2006 will constitute either "passive" or "general" income). Thus, it may not be possible for most Shareholders to utilise excess foreign tax credits to reduce US tax on such income.

10.3.2.9 *Information reporting and backup withholding on distributions and disposition proceeds*

Information returns may be filed with the IRS in connection with distributions on the Common Shares and the proceeds from a sale or other disposition of the Common Shares unless the holder of the Common Shares establishes an exemption from the information reporting rules. A holder of Common Shares that does not establish such an exemption may be subject to US backup withholding tax on these payments if the holder is not a corporation or non-US Person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a US Person will be allowed as a credit against the US Person's US federal income tax liability and may entitle the US Person to a refund, provided that the required information is furnished to the IRS.

10.3.2.10 *Proposed US tax legislation*

Legislation has been introduced in the US Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the US but have certain US connections. While there are no currently pending legislative proposals which, if enacted, would have a material adverse effect on the Company or the Shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on the Company or the Shareholders.

Additionally, the US federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the US or is a PFIC, or whether US Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC, are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Directors cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

10.4 ***Premium tax***

Premium taxes may be payable on premiums received in respect of direct insurance business written by the Insurer. The amount of premium tax levied will depend on the location of the risk and the premium tax regime of that territory. It is impossible to calculate the likely level of premium taxes incurred due to the expected diversity of the book of business written. Premium taxes should not affect the profitability of the Insurer as such taxes generally will be paid by the insured on top of the premiums received. However, premium taxes can have an impact on cash flows. Reinsurance is normally exempt from premium taxes.

11. Intellectual property

The Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability, except as otherwise disclosed in this document.

12. Working capital

The Directors are of the opinion that, having made due and careful enquiry, and taking into account the net proceeds from the Placing and the issue of the Notes, the working capital available to the Group is sufficient for its present requirements, that is for at least the 12 months from the date of Admission.

13. Litigation

No member of the Group is, nor at any time since 7 October 2005, the earliest date of incorporation of any member of the Group, has been, involved in any governmental, legal or arbitration proceedings in each case which may have, or has had in the recent past, a significant effect on the Company's or the Group's financial position or profitability and, so far as the Company is aware, there are no proceedings pending or threatened against any member of the Group.

14. Consents

14.1 Merrill Lynch, whose name and registered office appears on page 6, is acting in the capacity of sole bookrunner, lead manager, nominated adviser and broker to the Company. Merrill Lynch has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear and to the inclusion of its letter set out in Part 7 – Illustrative Summary Consolidated Financial Projections of the Group and the references to the same in the form and context in which they appear.

14.2 Benfield Advisory, whose name and registered office appears on page 6, is acting in the capacity of joint financial adviser to the Company. Benfield Advisory has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.

14.3 Kinmont, whose name and registered office appears on page 6, is acting in the capacity of joint financial adviser to the Company. Kinmont has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which it appears.

14.4 Ernst & Young LLP has given and not withdrawn its written consent as referred to in paragraph 1.2 of this Part 9 – Additional Information.

15. Third party information

The information in Part 2 – Information on the Group which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

16. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or members of the Group since 7 October 2005, the earliest date of incorporation of any member of the Group and are or may be material for disclosure:

16.1 ***Placing Agreement***

Pursuant to the Placing Agreement dated 13 December, conditional upon, *inter alia*, Admission taking place on or before 8.00 am on 16 December 2005, the Managers have agreed to procure subscribers for the Placing Shares, failing which the Managers have agreed severally and not jointly to themselves subscribe, on the terms set out in the Placing Agreement, for the Placing Shares proposed to be issued

by the Company at the Placing Price. The Placing Agreement provides that the obligation to procure subscribers for the Subscription Shares shall be satisfied by the execution of the New Subscription Agreements by the Subscribers.

The Placing Agreement contains warranties and indemnities from the Company and warranties from the Directors in favour of the Managers together with provisions which enable Merrill Lynch to terminate the Placing Agreement in certain circumstances prior to Admission, including circumstances where any warranties are not found to be true or accurate. The liability of the Directors for breach of warranty is limited. Under the Placing Agreement, the Company has agreed to pay to the Managers an aggregate commission of 2.75 per cent. of the value of the Institutional Placing Shares at the Placing Price.

Pursuant to the Placing Agreement the Company has appointed Merrill Lynch to act as its nominated adviser and broker for the purposes of the AIM Rules. The agreement contains certain undertakings given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations following Admission. The appointment is for a fixed term of 12 months from Admission and subject to termination on three months' prior written notice by either party to be given at any time after the expiry of the first nine month period or at any time thereafter.

Pursuant to the Placing Agreement, the Company has undertaken with the Managers that it will not issue any Common Shares or any other securities exchangeable for or convertible into, or substantially similar to, Common Shares or enter into any transaction with the same economic effect other than pursuant to the Placing, save in respect of Common Shares issued pursuant to (i) the exercise of options under share option schemes in existence on the date of Admission and described in this document, (ii) the Warrants at any time prior to the date which is the first anniversary of Admission without the prior written consent of Merrill Lynch and (iii) pursuant to issuances of Common Shares to raise funds as a result of a loss event impacting the Group's reinsurance or insurance portfolio necessary to maintain the Group's existing ratings provided that the Company shall obtain the prior written consent of Merrill Lynch (such consent not to be unreasonably withheld) before issuing any securities pursuant to subparagraph (iii).

16.2 ***Lock-Up Agreements***

The Directors, applicable employees and all other related parties (as such terms are defined in the AIM Rules) who, in each case, own Common Shares have undertaken (effective as at Admission), pursuant to the terms of the Lock-Up Agreements, save in certain limited circumstances, not to dispose of any interests in any of their Common Shares for a period of 12 months following Admission in accordance with rule 7 of the AIM Rules. In addition, the Subscribers (other than those who have entered into lock-up agreements as described in the previous sentence) have undertaken (effective as at Admission) pursuant to the terms of the Lock-up Agreements, save in certain limited circumstances, not to dispose of any interests in any of their Common Shares for a period of six months following Admission (without the prior written consent of Merrill Lynch).

16.3 ***Subscription agreements***

16.3.1 *Original Subscription Agreement*

On 27 October 2005 the Company entered into a subscription agreement with each of the Founder Shareholders pursuant to which the Company issued 16,000,000 Existing Common Shares (of US$0.10 each at the date of issue at the subcription price of US$1.00 per Existing Common Share) in the following amounts to the Founder Shareholders:

Richard Brindle	500,000
Capital Z Lancashire Partners, L.P	3,875,000
Moore Macro Fund, L.P.	3,875,000
OZ Europe Master Fund, Ltd.	1,309,750
OZ Master Fund, Ltd.	2,565,250
SAB Capital Partners, L.P.	1,881,000
SAB Capital Partners II, L.P.	34,845
SAB Overseas Master Fund, L.P.	1,959,155

These Existing Common Shares have now been consolidated into 3,200,000 Common Shares (pursuant to the resolutions described in paragraph 3.2.3. of this Part 9 – Additional Information).

The Company and each other party to each Original Subscription Agreement have given customary warranties thereunder. Under the Original Subscription Agreements, each Founder Shareholder has agreed that the Common Shares to which they have subscribed may only be transferred with the consent of the Company and the parties to the other Original Subscription Agreements (not to be unreasonably withheld) or, in the case of a Founder Shareholder, by way of a transfer to any of that Founder Shareholder's subsidiaries, holding companies or any subsidiaries of its holding companies from time to time, or any co-investors on the Co-Investors List (as defined in each Original Subscription Agreement). Such transfer restrictions will cease to apply upon Admission.

16.3.2 *New Subscription Agreement*

On 13 December 2005, the Company entered into a New Subscription Agreement with each of the Subscribers pursuant to which these parties have agreed to subscribe at the subscription price of US$5.00 per Common Share, conditional upon Admission, for Common Shares in the following amounts:

Richard Brindle	200,000
Neil McConachie	20,000
Caisse de Dépôt et Placement du Québec	17,986,000
Capital Z Lancashire Partners, L.P.	17,198,550
Crestview Capital Partners, L.P.	9,605,613
Crestview Capital Partners (ERISA), L.P.	773,799
Crestview Capital Partners (PF), L.P.	1,665,878
Crestview Holdings (TE), L.P.	663,252
Crestview Offshore Holdings (Cayman), L.P.	2,291,458
Cypress Lancashire Partners L.P.	9,890,000
First Plaza Group Trust for the benefit of pools PMI 127-130	4,000,000
Moore Global Fixed Income Fund (Master) Limited	8,780,588
Moore Macro Fund, L.P.	8,780,588
OZ Europe Master Fund, Ltd.	5,935,677
OZ Master Fund, Ltd.	11,625,499
SAB Capital Partners, L.P.	6,172,530
SAB Capital Partners II, L.P.	113,373
SAB Overseas Master Fund, L.P.	6,311,097

The subscription of the Common Shares under the New Subscription Agreements is also conditional upon the note purchase agreements, as further described in paragraph 16.5 of this Part 9 – Additional Information, and the other agreements relating to the issue of the Notes by the Company (the "Note Documents"), being executed and their being no fact, matter or circumstances which will or could reasonably be expected to lead to any of the conditions (other than any condition as to the New Subscription Agreements being wholly unconditional) to the Note Documents not being satisfied at the time at which such conditions are required to be satisfied.

The Company and each other party to each New Subscription Agreement have given customary warranties thereunder. Under the New Subscription Agreements, each of the Subscribers has warranted that it:

16.3.2.1 is a financial institution or institutional buyer or is at the time of the offer by the Company to sell the Subscription Shares and at the time of such investor's purchase of Subscription Shares it will be an "accredited Investor" (as defined in Rule 501(a) under the Securities Act);

16.3.2.2 has completed an Accredited Investors Questionnaire delivered to the Company with the New Subscription Agreement and that it has exercised due care and conducted a reasonable investigation in completing the Accredited Investors Questionnaire;

16.3.2.3 is a person (i) who has professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or (ii) falls within Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or (iii) is a person to which this Agreement may otherwise be lawfully distributed; and

16.3.2.4 is (i) authorised or regulated to operate in the financial markets in the European Economic Area as designated in the Prospectus Directive or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities, or (ii) has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000; and (c) an annual turnover of more than €50,000,000 as shown in its last annual or consolidated accounts; or (iii) is otherwise a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

16.4 ***Term sheet***

The Initial Founders (apart from Crestview Partners) and Benfield entered into a term sheet dated 26 October 2005 (as amended by an additional term sheet agreement dated 27 October 2005) which contains, *inter alia*, the following terms:

- The parties to the term sheet shall be entitled to an annual fee of US$1,000,000 in cash to be split between them in proportion to their respective investment in Common Shares immediately after Admission (or as they may otherwise agree amongst themselves). No further payments shall be made to the Initial Founders or any of their officers or employees who may serve from time to time as Directors for any services provided to the Company and the Insurer.

  This term sheet provision has now been implemented in the form of the monitoring agreement described in paragraph 16.15 of this Part 9 – Additional Information, except that the annual fee agreed to in the monitoring agreement is US$690,000 rather than US$1,000,000 and is to be shared between certain of the Initial Founders rather than all of them.

- For the period between 27 October 2005 and Admission, the Company shall incur only those liabilities in substantially the amounts as set out in the estimate of expenses in Appendix A

to the Term Sheet or as may otherwise be agreed by the parties to the term sheet (this term being binding). Certain liabilities as are permitted to be incurred by the Company include the legal and other transactional expenses of the parties to the term sheet in connection with the Original Subscription and the Subscription.

- The composition of the Board shall at all times be determined after consultation with tax counsel to the Company and the Insurer as to any applicable tax considerations affecting the Company related to the nationality or domicile of particular designees to the Board or an investor in the Company (this term being binding).

- Any transactions between the Company, the Insurer, the Initial Founders or Benfield or any associates or connected parties thereof will be negotiated on an arm's lengths basis and will be reviewed quarterly by the audit committee of the Board.

The other material provisions of the term sheet are summarised in paragraphs 8 and 17 of Part 2 – Information on the Group and, such provisions which have been implemented, in paragraphs 4, 6, 7, 8, 16.2, 16.3, 16.5 and 16.15 of this Part 9 – Additional Information and in Part 8 – Summary of the Warrants.

16.5 ***Notes***

The Company intends to raise approximately US$125.3 million (US$121.9 million net of expenses) through the issue of the Notes denominated in US dollars and euros.

The Company has entered into a note purchase agreement with Merrill Lynch and First Tennessee Bank, N.A. dated 9 December 2005 for the purchase of US dollar denominated trust preferred securities and a note purchase agreement with Merrill Lynch and Dekania dated 9 December 2005 for the purchase of euro denominated subordinated notes (together, the "Note Purchase Agreements"), pursuant to which Merrill Lynch and First Tennessee Bank, N.A. and Merrill Lynch and Dekania have respectively agreed to purchase the Notes, and the Company has agreed to issue the Notes substantially on the terms summarised below. The Noteholders have acknowledged that the terms of the Notes may be subject to modification to take account of due diligence, prevailing market conditions at the time of issue and other customary terms and conditions.

The obligations of the Noteholders under the Note Purchase Agreements are subject to certain conditions, including (i) receipt of an "A-" financial strength rating in respect of the Insurer from A.M. Best (this condition to be satisfied at or prior to Admission); (ii) the Company raising at least US$900 million of gross proceeds in connection with the Placing; and (iii) there being no material adverse change in the business of the Group.

In connection with the issue of the Notes, the Company has entered into the Note Purchase Agreements and, in the case of trust preferred securities, is expected to enter into an indenture, a guarantee and a declaration of trust and, in the case of subordinated notes, is expected to enter into a subordinated note. The Company will be responsible for (i) the fees and expenses of its counsel; (ii) the fees and expenses of the trustee(s) and of any other agent appointed in connection with the issue of the Notes; and (iii) the fees and expenses of the Note purchaser's legal advisers for the documentation of the Notes. A placement fee of 2.75 per cent. of the issue proceeds will be payable by the Company on the issue date under the Note Purchase Agreements and will be deducted from the proceeds of issue.

The terms and conditions of the Notes are expected to be substantially on the terms summarised below:

Issuer:	The Company.
Notes:	Approximately US$125.3 million aggregate principal amount of Notes comprised of $97 million of trust preferred securities and €24 million of subordinated notes (for the purposes of this document converted to US$ at a rate of US$1.18 per €).
Net Proceeds:	US$121.9 million, after payment of certain expenses and the payment of the placement fee.
Issue date:	The issue date is expected to be the date of Admission.
Maturity:	30 years for the US dollar denominated trust preferred securities and approximately 29.5 years for the euro denominated subordinated notes.
Early redemption:	Callable at the issuer's (the Company's) sole discretion any time, in whole or in part, after approximately five years following the Closing Date.
Interest:	Interest on the Notes will be, in the case of the US dollar denominated trust preferred securities, 3 month US dollar LIBOR plus a margin of 3.70 per cent. per annum and, in the case of the euro denominated subordinated notes, 3 month EURIBOR plus a margin of 3.70 per cent. per annum.
Interest deferral:	Payment of interest may, at the option of the Company, be deferred for up to 20 consecutive quarters (each, an "Extension Period") by extending the interest payment period.
Ranking:	The Notes will rank on a winding-up of the Company in priority to distributions on all classes of share capital and will rank *pari passu* with each other but will be subordinated in right of payment to the claims of all unsubordinated creditors of the Issuer.
Withholding taxes:	In the event of withholding tax being imposed, the Company will, subject to customary exceptions, pay grossed up amounts as may be necessary in order that the net amounts of interest receivable by the respective Noteholder after such withholding shall equal the amounts which would have been receivable in the absence of such withholding.
Restrictions on dividends:	During any Extension Period or during any event of default under the Notes, the Company will not, except in certain limited circumstances (i) declare or pay any dividend or distributions on or, redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock, equity interests or share capital, as the case may be (other than payments of dividends or distributions to the Company or a subsidiary of the Company) or make any guarantee payments with respect to the foregoing or (ii) make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any of its debt securities that rank *pari passu* in all respects with or junior in interest to the Notes.

Governing law:	The Notes comprised of trust preferred securities will be governed by and construed in accordance with New York law, except that the declaration of trust will be governed by the laws of the jurisdiction of the trust. The Notes comprised of subordinated notes will be governed by, and construed in accordance with New York law.

16.6 ***Depositary agreement***

The Company has entered into a depositary agreement with the Depositary, Capita IRG Trustees Limited, the material terms of which are summarised in paragraph 17.3 of this Part 9 – Additional Information.

16.7 ***General management agreement***

The Company has entered into a general management agreement with IAS dated 21 November 2005. IAS is a Bermudian management company authorised under the Insurance Act by the BMA to conduct and engage in the management of all types of insurance companies and the provision of administration services to those companies. Pursuant to the general management agreement IAS will assist in the conduct of the business of the Group in and from Bermuda under the supervision of the Company and the Board and in accordance with any operating guidelines notified by the Company to IAS in writing.

IAS will generally assist in the administration of the Group and will provide certain support services including:

- establishing and maintaining an insurance accounting service;
- monitoring and recording the reinsurance and retrocession of risks accepted on behalf of the Group and to assist in the recovery of losses and expenses from reinsurers;
- maintaining accounting records;
- preparing and duly filing all insurance and accounting statements required by the Bermuda Supervisor of Insurance or Bermuda Registrar of Companies;
- acting in conjunction with legal counsel and others to assist the Group in complying with applicable Bermuda laws and regulations including obligations under the Insurance Act;
- effecting the timely payment of all Bermuda fees, taxes and expenses; and
- developing procedural and other manuals, forms and formats necessary or desirable in furtherance of the operations of the Group.

IAS will also provide for use by the Group office premises at 44 Church Street, Hamilton HM12, Bermuda, certain office infrastructure (such as computer accessibility, telephones, fax machines, photocopiers and the like) and (on a non-exclusive basis) secretarial, IT support, messenger and receptionist services.

Under the general management agreement the Company has agreed to pay IAS certain fees and expenses including US$10,500 per month for use of the premises specified above and a monthly deposit fee of US$40,000 per month for the services provided by IAS thereunder (subject to adjustment based upon the actual number of hours spent by IAS staff in providing such services). The general management agreement will continue until 31 December 2006 and from then on can be terminated by IAS on 90 days written notice to the Company and by the Company on 45 days written notice to IAS.

16.8 ***Sbi managed services contract***

The Company has entered into a managed services contract with Sbi dated 17 November 2005 to be effective on 1 January 2006. Pursuant to the managed services contract, Sbi will build the Company's IT systems and networks, and provide maintenance of equipment and services to the Company.

Sbi will provide the services to the Company at a rate of BD$6,000 per month. Services not included in the monthly fee are installation and integration services, which will be invoiced at the standard hourly rates.

The term of the managed services contract will begin on 1 January 2006 for no less than 12 months, and will be open-ended thereafter. Either party can terminate the agreement for any reason upon 90 days prior written notice of intent to terminate to the other party. Sbi may terminate the agreement without notice at the sole discretion of Sbi for violation of any terms and conditions of the managed services contract.

16.9 ***Co-location service agreement***

The Company has entered into a co-location service agreement with Transact Limited ("Transact") dated 17 November 2005. Pursuant to the co-location service agreement Transact will provide co-location services and facilities to the Company.

Under the co-location service agreement the Company will pay a monthly fee of BD$2,000 for the use of a computer rack and the services specified above, except for the installation period. There will be a one time charge of BD$750 for the provision of a network engineer on installation. Networking/resource hourly rates will apply for additional services. The co-location service agreement is for an initial term of 36 months, and it may be terminated by a party immediately upon written notice of failure by the other party to comply with its terms which that party does not remedy within 30 days. Also, Transact may terminate the agreement by giving 60 days notice. The Company may terminate the agreement by giving at least one calendar month's written notice prior to the end of the stated term.

16.10 ***Dedicated internet access agreement***

The Company has entered into a dedicated internet access agreement with Transact dated 17 November 2005. Pursuant to the dedicated internet access service agreement Transact will provide dedicated internet access services and facilities to the Company.

Under the dedicated internet access agreement, the Company will pay a monthly fee of BD$1900 for internet access. There will be a one time charge of BD$750 for installation. Local data charges and other consulting relating network charges are not included. The dedicated internet access agreement will commence on 1 December 2005 for an initial term of 36 months, and it may be terminated by a party immediately upon written notice for failure of the other party to comply with its terms which the party in breach does not remedy within 30 days. Furthermore, Transact may terminate the agreement by giving 60 days' notice and the Company may terminate the agreement by giving at least one calendar month's written notice prior to the end of the stated term.

16.11 ***Engagement letter with Benfield Advisory***

The Company has entered into a letter agreement with Benfield Advisory dated 21 October 2005 pursuant to which Benfield Advisory will act as joint financial adviser to the Company and provide certain services in relation to the Placing and Admission. In consideration of such services the Company will pay to Benfield Advisory fees as follows (in each case conditional upon the Placing resulting in proceeds of at least US$250 million being payable by the Company and upon the Company receiving a financial strength rating of at least "A-" from one of the leading credit rating agencies):

- an advisory fee of US$2.5 million;
- placement commissions, subject to a minimum of 0.75 per cent. of all amounts raised through the Placing, to be negotiated between the respective advisers to the Company; and
- Warrants representing 3 per cent. of the Company's Fully Diluted Common Share Capital upon Admission (the terms of which are summarised in Part 8 – Summary of the Warrants).

It has now been agreed with the Company and its other financial advisers that Benfield Advisory shall, subject to the above conditions, receive a commission of 0.75 per cent. of all amounts raised through the Placing.

16.12 ***Engagement letter with Kinmont***

The Company has entered into a letter agreement with Kinmont dated 9 December 2005 incorporating the terms of an agreement effective from 21 October 2005 pursuant to which Kinmont will act as joint financial adviser to the Company and provide certain services in relation to the Placing and Admission. These services include advising Richard Brindle on the commercial terms for his and the Management Team's financial participation in the Company's equity (excluding in relation to tax). In consideration of such services the Company will pay to Kinmont fees as follows (in each case being payable by the Company conditional upon the Placing resulting in proceeds of at least US$250 million and upon the Company receiving a financial strength rating of at least "A-" from one of the leading credit rating agencies):

- an advisory fee of US$0.5 million; and
- placement commissions, subject to a minimum of 0.15 per cent. of all amounts raised through the Placing.

16.13 ***Crestview management rights letter agreement***

The Company has entered into a management rights letter agreement dated 12 December 2005 with Crestview Capital Partners (ERISA) L.P. (the "Fund") pursuant to which the Fund has been granted certain rights to attend Board meetings and to be provided with certain financial, operational and commercial information on the Company and to inspect the books and records of the Company. These rights have been granted to the Fund (but not to the other Crestview Partners entities) in light of the regulatory status of certain investors in the Fund and, in particular, in order to avoid certain adverse consequences under US laws governing pension plan assets and the investment of such assets, such as imposition of excise taxes and reduction in carried interests. In this regard, certain private equity funds (such as the Fund) in which pension plans are investors are required to secure management rights (such as a Board seat or rights to observe Board meetings, meet with management and inspect books and records) with respect to certain portfolio investments of such funds.

These rights are subject to:

- the Fund holding at least 25 per cent. of the Common Shares issued to the Fund pursuant to the New Subscription Agreement between the Company and the Fund; and
- the Company complying with and not being in breach of any applicable laws, rules and regulations in any relevant jurisdiction, including the Act, the Criminal Justice Act 1993, the FSMA and the rules of AIM (together, "Applicable Laws and Regulations").

Furthermore, the Company has the right to deny the Fund and its representatives access to any material or portion thereof as necessary to:

- protect any attorney-client privilege of the Company;
- preserve the confidentiality of the Company's trade secrets; or
- so as to ensure compliance by the Company and its Directors with all Applicable Laws and Regulations.

16.14 ***Warrant issuance agreements***

On 12 December 2005 the Company entered into warrant issuance agreements with the Initial Founders (in connection with the issue of Initial Founder Warrants (as defined in Part 8 – Summary of the Warrants) over 7 per cent. (a "Relevant Percentage") of the Fully Diluted Common Share Capital) and Benfield (in connection with the issue of the Benfield Warrants (as defined in Part 8 – Summary of the Warrants) over 3 per cent. (a "Relevant Percentage") of the Fully Diluted Common Share Capital). The warrant issuance agreements provide that if, following issue of the Warrants and Admission, the Fully Diluted Common Share Capital shall increase due to Common Shares being issued and allotted to, or at the direction of, Merrill Lynch as stabilising manager pursuant to any over-allotment option, the Company will issue further Warrants to the Initial Founders and Benfield to ensure they receive, in aggregate, Warrants over the Relevant Percentages of the Fully Diluted

Common Share Capital. The warrant issuance agreements also provide that, in computing the relevant number of Common Shares which are, in accordance with the warrant issuance agreement, to be subject to a Warrant, fractional entitlements to Common Shares will be rounded down to the nearest whole number of Common Shares. For details of the terms of the Warrants please refer to Part 8 – Summary of the Warrants.

16.15 ***Monitoring agreement***

Three of the Initial Founders, being Capital Z Lancashire Partners, L.P., Cypress Lancashire Partners, L.P., and Crestview Advisors, L.L.C., intend to enter into a monitoring agreement with the Company. Under the monitoring agreement, the Company will pay an annual fee of $690,000, to be allocated between those Initial Founders, as compensation for those Initial Founders providing monitoring services in respect of the Company's business. The annual fee will be reduced by any amount for Directors' fees received by Board representatives of those Initial Founders. Each of those Initial Founders' right to such a fee shall cease (and shall not be reallocated to the other Initial Founders) upon that Initial Founder no longer holding a seat on the Company's Board or until the expiry of the fixed term of 10 years of the monitoring agreement, whichever occurs first.

16.16 ***Consulting outsourcing agreement***

The Insurer intends to enter with Benfield into a consulting outsourcing agreement shortly after the date of this document, under which Benfield will provide modelling assistance and licensing of its modelling software products. According to the written proposal received by the Insurer from Benfield, the following services (including details of the anticipated minimum fee structure as stated in the proposal) may be provided by Benfield:

- assistance in developing a probable maximum loss model and tools for monitoring levels of rate of change at a portfolio level (£60,000 for first 20 days plus £3,000 per additional day;
- licensing at ReMetrica modelling software (£70,000);
- catastrophe modelling (£180,000 for first 90 days of modelling, plus £2,000 per additional day; and
- catastrophe model comparison reports (fee is dependent on requirements of actual reports).

All the above anticipated fees are exclusive of VAT and other costs.

17. CREST and Depositary Interest arrangements

17.1 ***Introduction***

Details of CREST are set out in paragraph 6 of Part 4 – Details of the Placing.

Application has been made for the DIs in respect of the underlying Common Shares to be admitted to CREST with effect from Admission.

Holders of Common Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact their broker.

17.2 ***Summary of the material terms of the Deed Poll***

Prospective investors are referred to Part 10 – Depositary Interests: terms of Deed Poll which sets out the full text of the Deed Poll.

As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by the Depositary, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Common Shares or the DIs representing them.

Common Shares will be transferred to an account of the Depositary or its nominated custodian (the "Custodian") and the Depositary will issue DIs to participating members.

Each DI will be treated as one Common Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of DIs any stock or cash benefits received

by it as holder of Common Shares on trust for such DI holder. DI holders will also be able to receive from the Depositary notices of meetings of holders of Common Shares and other information issued by the Company to the Shareholders to make choices and elections. In summary, the Deed Poll contains, *inter alia*, provisions to the following effect:

(a) The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities for the time being held by the Depositary or Custodian pertaining to the DIs for the benefit of the holders of the DIs. The Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian *pro rata* to the Common Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.

(b) Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Depositary or Custodian on behalf of the Depositary for the account of the DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's memorandum of association or Bye-laws or any contractual obligation, or applicable law or regulation binding or affecting such holder.

(c) The Depositary and any Custodian shall pass on to DI holders, and so far as reasonably able exercise on their behalf, all rights and entitlements received by the Depositary or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the Deed Poll. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

(d) The Depositary will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.

(e) The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a holder of DIs will be limited to the lesser of:

  (i) the value of the Common Shares and other deposited property properly attributable to the DIs to which the liability relates; and

  (ii) that proportion of £10 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £10 million.

(f) The Depositary is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.

(g) The holders of DIs are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST

system as exempt from stamp duty reserve tax is so exempt, and to notify the Depositary forthwith if this is not the case, and to pay to CRESTCo any interest, charges or penalties arising from late or non-payment of stamp duty reserve tax in respect of such transaction.

(h) Each holder of DIs is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act performed in accordance with or for the purposes of or otherwise related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by the Depositary or Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

(i) The Depositary is entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

(j) The Depositary may terminate the Deed Poll by giving 30 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable, delivery the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll *pro rata* to holders of DIs in respect of their DIs.

(k) The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Common Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's memorandum of association and/or Bye-laws require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with such memorandum of association and Bye-laws and the Company's instructions with respect thereto.

It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlement available to holders of Common Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of DIs to give prompt instructions to the Depositary to vote the underlying shares on their behalf.

17.3 ***Summary of the material terms of the Depositary Agreement***

Under the depositary agreement dated 8 December 2005 between the Company and the Depositary (the "Depositary Agreement"), the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, series of DIs representing securities issued by the Company and to provide certain other services in connection with such DIs.

The Depositary Agreement contains, *inter alia*, provisions to the following effect:

(a) The Depositary agrees that it will comply, and will procure certain other persons comply, with the terms of the Deed Poll and that it and they will perform their obligations and exercise all rights in good faith and with all reasonable skill, diligence and care. The Depositary assumes certain specific obligations including, for example, to arrange for the DIs to be admitted to CREST as participating securities and provide copies of and access to, the register of DIs.

(b) The Depositary warrants that it is an authorised person under the FSMA and is duly authorised to carry out custodial and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation.

(c) The Depositary will either itself or through its appointed Custodian as bare trustee hold the deposited property (which includes, *inter alia*, the securities represented by the DIs) for the benefit of the holders of the DIs as tenants in common, subject to the terms of the Deed Poll.

(d) The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Deed Poll and Depositary Agreement. In particular, the Company is to supply the Depositary with all documents it sends to its shareholders so that the Depositary can distribute the same to all holders of DIs.

(e) The Depositary will not be obliged to accept transfers of DIs if the transfer would place the Depositary in breach of any law or regulation. If such circumstances were to occur the Depositary will discuss this with the Company as soon as is reasonably practicable in order to review how to proceed.

(f) The Depositary Agreement sets out the procedures to be followed where the Company is to pay or make a dividend or other distribution.

(g) The Depositary is to indemnify the Company and each of its subsidiaries and subsidiary undertakings against claims made against any of them by any holder of DIs or any person having any direct or indirect interest in any such DIs or the underlying securities which arises out of any breach of alleged breach of the terms of the Deed Poll or any trust declared or arising thereunder.

(h) The Depositary Agreement is to remain in force for as long as the Deed Poll remains in force. The Company may by giving not less than 30 days written notice to the Depositary terminate the appointment of the Depositary if an Event of Default (as defined in the Depositary Agreement) occurs in relation to the Depositary or if it commits an irremediable material breach of the agreement or the Deed Poll or any other material breach which is not remedied within 30 days of being required to do so by written notice given by the Company. The Depositary has, by giving not less than 30 days written notice to the Company, the same termination rights in respect of Events of Default occurring or any such breach by the Company. Either of the parties may terminate the Depositary's appointment by giving not less than 45 days' written notice.

(i) The Depositary may not subcontract or delegate its obligations under the Deed Poll to any person without the Company's prior consent (not to be unreasonably withheld).

(j) The Company is to pay certain fees and charges including, *inter alia*, an annual fee, a fee based on the number of DIs per year and certain CREST related fees. The Depositary is also entitled to recover reasonable out of pocket fees and expenses.

18. General

18.1 The gross proceeds and net proceeds of the Placing to the Company are expected to be approximately US$910.1 million and approximately US$884.8 million (excluding VAT) respectively. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately US$25.3 million (excluding applicable VAT). Such expenses will include legal, financial advisory, consulting, underwriting and accounting fees, travel, printing and other expenses. The Company will also pay the expenses incurred in the formation and establishment of the Group to the date of the Admission and Placing.

18.2 Other than the current application for Admission, the Common Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in such Common Shares.

18.3 The financial year end of the Company is 31 December of each year and the first audited financial statements of the Company will be prepared for the period ending 31 December 2006. The Company does not have any audited historic financial statements.

18.4 Other than as disclosed in paragraph 11 of Part 2 – Information on the Group, there are no investments of the Group in progress which are or may be significant.

18.5 Save as disclosed in this document, no person (other than a professional adviser referred to in this document and trade suppliers) has:

18.5.1 received, directly or indirectly, from any member of the Group within 12 months preceding the application for Admission; or

18.5.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission, any of the following:

18.5.2.1 fees totalling £10,000 or more;

18.5.2.2 securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price; or

18.5.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

18.6 The Placing Price represents a premium of US$4.50 over the nominal value of the Common Shares of US$0.50.

18.7 It is expected that definitive share certificates will be despatched by hand or first class post by 9 January 2006. No temporary documents of title will be issued. In respect of Depositary Interests it is expected that Shareholders' CREST stock accounts will be credited on 16 December 2005. The Common Shares are in registered form.

18.8 There has been no significant change in the financial or trading position of the Group since 7 October 2005, the earliest date of incorporation of any member of the Group.

18.9 The ISIN number of the Common Shares is BMG5361W1047. The CUSIP number is G5361W 10 4.

18.10 The provisions of Part 8 – Summary of the Warrants and paragraphs 7 and 16 of Part 9 – Additional Information disclose related party transactions and summarise the nature and extent of those transactions which are material to the Company.

19. Availability of this document, memorandum of association and Bye-laws

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and from the offices of Merrill Lynch at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ for one month from the date of Admission.

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays, Sundays and public holidays), at the offices of LeBoeuf, Lamb, Greene & MacRae, No. 1 Minster Court, Mincing Lane, London EC3R 7YL from the date of this document until the date which is one month following Admission:

19.1 the memorandum of association and Bye-laws of the Company;

19.2 the reports set out in Part 6 – Accountant's Report and Financial Information on the Company;

19.3 the letter prepared by Merrill Lynch in respect of the Illustrative Projections, a copy of which is set out in Part 7 of this document; and

19.4 the consent letters referred to in paragraph 14 of this Part 9 – Additional Information.

Dated 13 December 2005

PART 10

DEPOSITARY INTERESTS: TERMS OF DEED POLL

THIS DEED POLL is made on 8 December 2005

BY CAPITA IRG TRUSTEES LIMITED an English company, number 2729260, whose registered office is at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (the "Depositary"), which expression shall, unless the context otherwise requires, include any successor depositary appointed in accordance with clause 13.2 of this Deed, in favour of the holders of Lancashire Holdings Depositary Interests as hereinafter defined.

WHEREAS:

(A) Lancashire Holdings Limited ("Lancashire Holdings") is a company incorporated and registered in Bermuda with registered number EC37415 whose central management and control is not exercised in the UK and its securities are not registered in a register kept in the UK by or on behalf of Lancashire Holdings.

(B) Lancashire Holdings Securities are currently expected to be admitted to trading on the Alternative Investment Market of the London Stock Exchange plc and are admitted to trading on or about 13 December 2005.

(C) The Regulations and the CREST Manual do not provide for the direct holding and settlement of foreign securities such as the Lancashire Holdings Securities by participants in CREST.

(D) The Depositary has determined to constitute and issue from time to time, upon the terms of this Deed, series of Lancashire Holdings Depositary Interests, each such series representing a particular Class of Lancashire Holdings Securities, with a view to facilitating the indirect holding of, and settlement of transactions in, Lancashire Holdings Securities of each Class concerned by participants in CREST in accordance with the arrangements described in the CREST Manual.

(E) The Depositary has arranged with the Operator for the First Series of Lancashire Holdings Depositary Interests to be admitted to CREST as participating securities.

(F) Title to the Lancashire Holdings Depositary Interests shall be evidenced only by entry on the Lancashire Holdings Depositary Interest Register and may be transferred only by means of the CREST system.

(G) CAPITA IRG PLC, an English company, number 2605568, which is already a System Participant, has been retained by the Depositary to maintain the Lancashire Holdings Depositary Interest Register on behalf of the Depositary.

NOW IT IS WITNESSED AND DECLARED as follows:-

1. INTERPRETATION

1.1 In this Deed the following expressions shall have the following meanings:-

Agent	any agent appointed by the Depositary pursuant to this Deed;
Board Resolution	the resolution of the Board of Directors of Lancashire Holdings duly passed on 23 November 2005 by virtue of which Lancashire Holdings treats a CREST Transfer or a Demat Form in which either no transferee or a transferee other than the Custodian is specified together with a Stock Deposit Transaction for a number of Lancashire Holdings Depositary Interests equivalent to that specified in such CREST Transfer or Demat Form as valid instruments of transfer of shares in the capital of Lancashire Holdings and to authorise the same for registration as valid transfers of the number of securities specified therein to the Custodian;

Class	a particular class of Lancashire Holdings Securities, units of which are for the time being in issue, where all the individual units of the Class concerned are identical in all respects and cannot be separately distinguished;
CREST Manual	the document entitled the "CREST Manual" issued by the Operator but excluding the CREST International Manual;
CREST member	a person who has been admitted by the Operator as a system member;
CREST Rules	rules within the meaning of the Regulations and/or the FSMA made by the Operator;
CREST system	the meaning ascribed thereto in the Glossary of the CREST Manual;
CREST Transfer	the form of stock transfer in use from time to time within the CREST system for a transfer of a certificated unit of a participating security to a CREST member to be held by a CREST member in uncertificated form;
Custodian	subject to clause 3.3, any custodian or custodians or any nominee of any such custodian of the Deposited Property as may from time to time be appointed by the Depositary for the purposes of this Deed;
Demat Form	the CREST Dematerialisation Request Form in use from time to time within the CREST system for conversion of a unit of a participating security held by a CREST member into uncertificated form;
Deposited Lancashire Holdings Securities	means Lancashire Holdings Securities of a particular Class or entitlements thereto from time to time credited to an account of the Custodian on behalf of the Depositary in the Share Register which are to be held under the terms of this Deed and in respect of which Lancashire Holdings Depositary Interests of a series representing that Class of Lancashire Holdings Securities shall be issued pursuant to the terms of this Deed;
Deposited Property	in relation to a particular Class of Lancashire Holdings Securities, the Deposited Lancashire Holdings Securities and all and any rights and other securities, property and cash for the time being held by or for the Custodian or the Depositary and attributable to the Deposited Lancashire Holdings Securities;
First Series of Lancashire Holdings Depositary Interests	all Lancashire Holdings Depositary Interests from time to time constituted and issued in accordance with this Deed in relation to Lancashire Holdings Securities which are common shares of US$0.10 par value each having the rights set out in the Memorandum and Bye-Laws;
FSA	The Financial Services Authority;
FSMA	The Financial Services and Markets Act 2000;
Holder	in relation to a particular Class of Lancashire Holdings Securities and subject to clause 6.2.1, the CREST member recorded in the Lancashire Holdings Depositary Interest Register for the time being as the holder of a Lancashire Holdings Depositary Interest of the series which represents Lancashire Holdings Securities of that Class; and, where the context admits, shall include a former Holder and the personal representatives or successors in title of a Holder or former Holder;

Lancashire Holdings Limited	Lancashire Holdings, a company incorporated and registered in Bermuda with limited liability under Bermudian law with registered number EC37415 and the common shares of which are to be admitted to trading on the Alternative Investment Market of the London Stock Exchange plc;
Lancashire Holdings Depositary Interest Register	in relation to a particular series of Lancashire Holdings Depositary Interests, the register of Holders referred to in clause 2.9 and maintained in the UK on behalf of the Depositary by the Lancashire Holdings Depositary Interest Registrar;
Lancashire Holdings Depositary Interest Registrar	CAPITA IRG PLC or such other CREST Registrar who for the time being maintains the Lancashire Holdings Depositary Interest Register;
Lancashire Holdings Depositary Interests	Lancashire Holdings Depositary Interests of a particular series issued in uncertificated form from time to time by the Depositary on the terms and conditions of this Deed and in accordance with the Regulations, title to which is evidenced by entry on the Lancashire Holdings Depositary Interest Register and which represent a particular Class of Lancashire Holdings Securities;
Lancashire Holdings Securities	securities issued by Lancashire Holdings in accordance with its Memorandum and Bye-Laws or other constitutive documents, whether represented by bearer certificates or instruments or by being recorded on a register or otherwise howsoever, and which are not participating securities (as defined in the Regulations), but excluding such securities or Classes of securities as the Depositary may from time to time determine;
Liabilities	any liability, damage, loss, cost, claim or expense of any kind or nature whether direct, indirect, special, consequential or otherwise;
Membership Agreement	the agreement entered into by a Holder with the Operator pursuant to which the Operator agreed to admit the Holder as a system-member;
Memorandum and Bye-Laws	the memorandum and bye-laws of Lancashire Holdings as amended or replaced from time to time;
Operator	CRESTCo Limited or such other person who is for the time being the Operator of the CREST system for the purposes of the Regulations;
Proceedings	any proceeding, suit or action of any kind and in any jurisdiction arising out of or in connection with this Deed or its subject matter;
Regulations	The Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) and such other regulations under Section 207 of the Companies Act 1989 as are applicable to the Operator and/or the CREST relevant system and are from time to time in force;
Share Register	means the register of members of Lancashire Holdings maintained in accordance with its Memorandum and Bye-Laws or other constitutive documents by Lancashire Holdings or on behalf of Lancashire Holdings by the Share Registrar;
Share Registrar	the person who for the time being maintains the Share Register;
Stock Deposit Transaction	a properly authenticated dematerialised instruction in respect of a transaction type referred to in the CREST Manual as a stock deposit;

Stock Withdrawal Transaction into New Name	a properly authenticated dematerialised instruction in respect of a transaction type referred to in the CREST Manual as a stock withdrawal and which includes a transferee; and
Stock Withdrawal Transaction into Own Name	a properly authenticated dematerialised instruction in respect of a transaction type referred to in the CREST Manual as a stock withdrawal and which does not include a transferee.

1.2 In this Deed, unless otherwise specified:-

1.2.1 references to clauses, sub-clauses, schedules and paragraphs are to clauses, sub-clauses, schedules and paragraphs, of this Deed;

1.2.2 headings to clauses and paragraphs are for convenience only and do not affect the interpretation of this Deed;

1.2.3 references to a "person" shall be construed so as to include any individual, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having a separate legal personality) of two or more of the foregoing;

1.2.4 references to any statute or statutory instrument or any provision thereof shall be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or re-enacted;

1.2.5 words importing the singular shall include the plural and vice versa unless the context otherwise requires;

1.2.6 references to fees, costs, charges, expenses or other payments, shall be exclusive of any value added tax or similar tax charged or chargeable in respect thereof; and when any value added tax is chargeable, the Depositary shall be entitled to recover that tax in addition to the stated fees, costs, charges, expenses or other payments;

1.2.7 words and phrases defined in the Regulations, the CREST Rules, and the CREST Manual which are not defined in this Deed shall have the same meanings where used herein unless the context otherwise requires;

1.2.8 in construing this Deed, general words shall not be given a restrictive meaning by reason of the fact that they are preceded or followed by words indicating a particular class of acts, matters or things or by particular examples intended to be embraced by the general words;

1.2.9 any provision to the effect that the Depositary shall not be liable in respect of a particular matter shall be construed to mean that the Depositary shall not have any liability which the Depositary might, in the absence of such a provision, incur, whether the Depositary could incur such a liability:-

(a) under the terms of this Deed or any other agreement or instrument relating to the CREST system (whether such terms are express or implied by statute, law or otherwise);

(b) in tort;

(c) for misrepresentation;

(d) for breach of trust or of any other duty imposed by law; or

(e) in any other way;

1.2.10 unless otherwise stated, nothing in this Deed is intended to confer a benefit on, and no term in this Deed will, therefore, be enforceable by, any third party pursuant to the Contracts (Rights of Third Parties) Act 1999 but this is without prejudice to the rights and obligations of the Depositary and any Holder created by this Deed. For these purposes, a term of this Deed shall

only be "otherwise stated" if it incorporates an express reference to a right or benefit of the Custodian or Lancashire Holdings; and

1.2.11 if a benefit is conferred on any third party in accordance with clause 1.2.10, the Depositary may rescind or vary any term of this Deed in accordance with its terms without the consent of the third party at all times.

2. FORM AND ISSUE OF LANCASHIRE HOLDINGS DEPOSITARY INTERESTS

2.1 Subject to clause 6.2, the Depositary shall only issue and transfer Lancashire Holdings Depositary Interests to CREST members who in accepting such issue or transfer give CRESTCo the authority to confirm such membership and supply a copy of their Membership Agreement to the Depositary. In accepting any issue or transfer to it of Lancashire Holdings Depositary Interests, each Holder shall be deemed to be accepting and agreeing to the terms of this Deed and all obligations imposed on it hereunder.

2.2 Subject to the provisions of this Deed, the Depositary shall issue to a CREST member such number or amount of Lancashire Holdings Depositary Interests of a particular series as is equal to the number or amount (as the case may be) of Lancashire Holdings Securities of the relevant Class issued or transferred to the Custodian on behalf of the Depositary, for the account of that CREST member.

2.3 Subject to the provisions of this Deed, the Depositary shall only issue Lancashire Holdings Depositary Interests upon either:-

2.3.1 receipt by the Depositary of a CREST Transfer or a Demat Form in respect of a specified number and Class of Lancashire Holdings Securities which, in either case, has been executed by or on behalf of the holder of such Lancashire Holdings Securities; or

2.3.2 the issue to the Custodian on behalf of a CREST member of a specified number and Class of Lancashire Holdings Securities; and in either case

2.3.3 receipt by the Depositary of a Stock Deposit Transaction for an equivalent number of Lancashire Holdings Depositary Interests.

2.4 Receipt by the Depositary of:

2.4.1 a CREST Transfer or a Demat Form as referred to in clause 2.3.1; and

2.4.2 a Stock Deposit Transaction for a number of Lancashire Holdings Depositary Interests equivalent to that specified in such CREST Transfer or Demat Form;

shall by virtue of the Board Resolution constitute an instrument of transfer of such Lancashire Holdings Securities in favour of the Custodian as transferee and by virtue of this clause but subject to the provisions of this Deed, be deemed to constitute:

(a) an irrevocable instruction to the Depositary to issue an equivalent number of Lancashire Holdings Depositary Interests in the name of the CREST member in whose favour such CREST Transfer is made or in whose name such Demat Form is made; and

(b) an irrevocable direction to the Depositary or the Lancashire Holdings Depositary Interest Registrar on its behalf, to adjust by means of a registrar's adjustment transaction the stock account of the relevant CREST member in respect of the relevant number of Lancashire Holdings Depositary Interests;

and accordingly, forthwith upon receipt of the same the Depositary shall, subject to the provisions of this Deed:

(i) procure that there is forthwith delivered to the Custodian on behalf of the Depositary, by unconditional credit to the Custodian's account in the Share Register, a number or amount of Lancashire Holdings Securities of the Class

concerned equal to the number or amount of Lancashire Holdings Depositary Interests to be so issued;

(ii) issue such Lancashire Holdings Depositary Interests; and

(iii) send such Registrar's adjustment transaction.

2.5 The issue to the Custodian on behalf of a CREST member of a specified number and Class of Lancashire Holdings Securities shall be deemed, subject to the provisions of this Deed, to constitute:

2.5.1 an irrevocable instruction to the Depositary to issue an equivalent number of Lancashire Holdings Depositary Interests in the name of the CREST member in whose favour such Lancashire Holdings Securities are issued; and

2.5.2 a direction to the Depositary or the Lancashire Holdings Depositary Interest Registrar on its behalf, to adjust by means of a registrar's adjustment transaction the stock account of the relevant CREST member in respect of the relevant number of Lancashire Holdings Depositary Interests;

and, accordingly, forthwith upon the issue of such Lancashire Holdings Securities, the Depositary shall, subject to the provisions of this Deed:

(a) procure that there is forthwith delivered to the Custodian on behalf of the Depositary, by unconditional credit to the Custodian's account in the Share Register, a number or amount of Lancashire Holdings Securities of the Class concerned equal to the number or amount of Lancashire Holdings Depositary Interests so issued;

(b) issue such Lancashire Holdings Depositary Interests; and

(c) send such Registrar's adjustment transaction.

2.6 The sending by the Depositary or the Lancashire Holdings Depositary Interest Registrar of a Registrar's adjustment transaction in accordance with this Deed is taken to constitute confirmation by the Depositary that:

2.6.1 the relevant number of Lancashire Holdings Depositary Interests has been issued in the name of the relevant CREST member; and that

2.6.2 there has been delivered to the Custodian on behalf of the Depositary, by unconditional credit to the Custodian's account in the Share Register, a number or amount of Lancashire Holdings Securities of the Class concerned equal to the number or amount of Lancashire Holdings Depositary Interests so issued.

2.7 If at any time after the date of this Deed Lancashire Holdings creates any separate Class(es) of Lancashire Holdings Securities then any Lancashire Holdings Depositary Interests to be issued in respect of any such separate Class of Lancashire Holdings Securities shall be issued in series, each series representing interests in a separate Class of Lancashire Holdings Securities.

2.8 Lancashire Holdings Depositary Interests shall be issued on the terms and conditions set forth or referred to in or prescribed pursuant to this Deed and the CREST Manual, in each case as from time to time amended.

2.9 The Depositary shall maintain in England separate registers in respect of each series of Depositary Interests in accordance with the Regulations. Each such register shall record:

2.9.1 the number of Lancashire Holdings Depositary Interests outstanding from time to time;

2.9.2 the name and address of each person holding the Lancashire Holdings Depositary Interests;

2.9.3 how many Lancashire Holdings Depositary Interests each such person holds; and

2.9.4 the date of issue and cancellation and changes in ownership in respect of all of Lancashire Holdings Depositary Interests.

2.10 Title to Lancashire Holdings Depositary Interests shall be evidenced only by entry on the Lancashire Holdings Depositary Interest Register and may be transferred only by means of the CREST system.

2.11 The Depositary shall, if requested to do so by Lancashire Holdings:

2.11.1 arrange for the Lancashire Holdings Depositary Interest Register to be open to the inspection of any Holder or Holders in general, in either case without charge, and of any other person or persons in general, in either case on payment of a fee; and

2.11.2 provide a copy of the Lancashire Holdings Depositary Interest Register, or any part of it, to any Holder, Holders in general, persons or persons in general, in any such case on payment of a fee; and the Depositary shall cause any copy so required to be sent within 10 days beginning with the day next following that on which the requirement is received by the Depositary.

2.12 The fees and other provisions relating to the inspection and copying of the Lancashire Holdings Depositary Interest Register will be those set out in the Companies (Inspection and Copying of Registers, Indices and Documents) Regulations 1991 (SI 1991/1998) as amended or replaced from time to time, as if those regulations applied to the Lancashire Holdings Depositary Interest Register. Each Holder consents to such arrangements to open the Lancashire Holdings Depositary Interest Register for inspection.

2.13 Lancashire Holdings Depositary Interests may be issued only in uncertificated form. A request for conversion of Lancashire Holdings Depositary Interests into certificated units of a security for the purposes of the Regulations shall be deemed to be a request to the Depositary for cancellation of such Lancashire Holdings Depositary Interests and withdrawal of the Deposited Property represented by such Lancashire Holdings Depositary Interests in accordance with this Deed.

2.14 Subject to clauses 9.13 and 10.2, Lancashire Holdings Depositary Interests shall be transferable free from any equity, set-off or counterclaim between the Depositary and the original or any intermediate Holder.

2.15 The Depositary shall have no obligation to arrange for the Lancashire Holdings Depositary Interests to be listed on any stock exchange or quoted or permitted to be dealt in or on any other market.

2.16 The Lancashire Holdings Depositary Interests have not been and will not be registered under the securities legislation of any territory other than England and Wales.

2.17 Save for the trusts declared by clause 5.1 of this Deed, the Depositary shall not be bound by or compelled to recognise any express, implied or constructive trust or other interest in respect of Deposited Property, even if it has actual or constructive notice of the said trust or interest. The Depositary does not undertake any duty or obligation to any person (other than a Holder) and accepts no liability to any such person.

2.18 Lancashire Holdings Depositary Interests may be cancelled by the Depositary pursuant to clauses 6, 7 and 9.3 and, so far as the Depositary considers appropriate, in the circumstances contemplated in clauses 9.11, 9.13, 10.2 and 11.1.

2.19 The Depositary shall maintain in respect of each Holder:

2.19.1 a securities account showing the amount of Deposited Lancashire Holdings Securities attributable to that Holder and, if and so long as the Deposited Property includes cash;

2.19.2 a cash account recording the cash amounts (if any) attributable to such Deposited Lancashire Holdings Securities.

3. APPOINTMENT OF CUSTODIAN

3.1 The Depositary shall from time to time appoint one or more persons to act for it as Custodian. The function of the Custodian shall be to hold such of the Deposited Property as may be designated from time to time by the Depositary, and any cash or other property derived from such Deposited Property, on behalf of the Depositary. The Custodian shall be subject at all times and in all respects to the direction of the Depositary and shall be responsible solely to it. The Depositary may at any time terminate the appointment of any Custodian and appoint a successor Custodian. The Custodian may be a member of the same group of companies as the Depositary.

3.2 The Depositary shall require the Custodian to ensure that all Deposited Property held by the Custodian is identified as being held on behalf of the Depositary for the account of Holders. The Depositary shall not be liable to earn any interest on or to account to Lancashire Holdings or any Holder or any other person for any interest earned on moneys held either by it or by the Custodian or by any Agent which shall have been paid by or on behalf of Lancashire Holdings or any Holder under this Deed or shall otherwise have been received in respect of Deposited Property.

3.3 Notwithstanding the provisions of clause 3.1, the Depositary may, to the extent permitted by applicable laws and regulations to which it is subject, itself perform the functions of the Custodian, in which case references in this Deed to the Custodian shall be deemed to be references to the Depositary.

4. DEPOSIT OF DEPOSITED PROPERTY; FURTHER PROVISIONS

4.1 Each person to whom Lancashire Holdings Depositary Interests are to be issued pursuant to this Deed (the "Taker") shall be bound to give such warranties and certifications to the Depositary as the Depositary may reasonably require. Each Taker shall in any event be taken to warrant that Lancashire Holdings Securities which are transferred or issued to the Custodian on behalf of the Depositary for the account of the Taker are transferred or, as the case may be, issued free and clear of all liens, charges, encumbrances or third party interests (other than the interests therein arising pursuant to clause 5 of this Deed) and that such transfers or, as the case may be, such issues of Lancashire Holdings Securities to the Custodian are not in contravention of the Memorandum and Bye-Laws or other constitutive documents of Lancashire Holdings or of any contractual obligation binding on the Taker or the person making the transfer or of any applicable law or regulation or order binding on or affecting the Taker or the person making the transfer, and the Taker shall indemnify the Depositary and keep it indemnified from and against any liability which it may suffer by reason of any breach of any such warranty.

4.2 The Depositary shall be entitled to refuse to accept Lancashire Holdings Securities for deposit hereunder:

4.2.1 whenever it is notified in writing that Lancashire Holdings has restricted the transfer thereof to comply with ownership restrictions under applicable law or under the Bye-Laws or any contractual provision binding Lancashire Holdings; or

4.2.2 if the Depositary is requested to do so by or on behalf of Lancashire Holdings in order to facilitate Lancashire Holdings' compliance with or to avoid any breach of any securities or other laws in any jurisdiction; or

4.2.3 if such action is deemed necessary or advisable by the Depositary at any time or from time to time because of any requirement of any applicable law or of any government or governmental authority, body or agency or any regulatory authority or the Operator, or under any provision of this Deed or for any other reason.

5. DECLARATION OF TRUST; NO SECURITY INTEREST; DUTIES WITH RESPECT TO DEPOSITED PROPERTY

5.1 The Depositary hereby declares and confirms that it holds (itself or through the Custodian) as bare trustee and will so hold, subject to the terms of this Deed, all the Deposited Property pertaining to each series of Lancashire Holdings Depositary Interests for the benefit of the Holders of that series as tenants in common and that each of the Holders is entitled to rights in relation to the relevant Deposited

Property accordingly. For the avoidance of doubt, in acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly undertaken by it in this Deed and, except to the extent expressly provided by this Deed, does not assume any relationship of trust for or with the Holders or any other person.

5.2 Nothing in this Deed is intended to nor shall create a charge or other security interest in favour of the Depositary. Any right or power of the Depositary in respect of the Deposited Property is reserved by the Depositary under its declaration of trust contained in clause 5.1 and is not given by way of grant by any Holder.

5.3 The Depositary shall promptly pass on to and, so far as it is reasonably able, exercise on behalf of and shall ensure that the Custodian promptly passes on to and, so far as it is reasonably able, exercises on behalf of the relevant Holder(s) all rights and entitlements which it or the Custodian receives or is entitled to in respect of Deposited Lancashire Holdings Securities in accordance with this Deed and which are capable of being passed on or exercised.

5.3.1 Any such rights or entitlements to cash distributions, to information, to make choices and elections, and to call for, attend and vote at general meetings and any class meetings shall, subject to the other provisions of this Deed, be passed on to the relevant Holder(s) forthwith (and in any event within 3 working days) upon being received by the Custodian in the form in which they are received by the Custodian together with such amendments or such additional documentation as shall be necessary to effect such passing-on or, as the case may be, exercised in accordance with the terms of this Deed.

5.3.2 Any such rights or entitlements to any other distributions, including but not limited to scrip dividends, to bonus issues or arising from capital reorganisations shall be passed on to the relevant Holder(s) (a) by means of the consolidation, sub-division, change in currency denomination, cancellation and/or issue of Lancashire Holdings Depositary Interests to reflect the consolidation, sub-division, change in currency denomination and/or cancellation of the underlying Deposited Lancashire Holdings Securities or the issue of additional Lancashire Holdings Depositary Interests to the relevant Holder(s) to reflect the issue of additional Lancashire Holdings Securities to the Custodian and (b) in either case forthwith following such consolidation, sub-division, change in currency denomination and/or cancellation or issue of such Lancashire Holdings Securities as the case may be.

5.3.3 If the Company makes a distribution in specie to the Custodian of an asset which is not readily divisible among Holders in their due proportions, the Custodian will use reasonable endeavours to sell the relevant asset within a reasonable time at the best price reasonably obtainable in the market and to distribute the net proceeds of sale appropriately to Holders pro rata to the Deposited Lancashire Holdings Securities held for their respective accounts. For the avoidance of doubt, the Custodian shall not be under any obligation to sell a relevant asset if there is in fact no market for it, nor will it be under any obligation to operate the asset in question in order to produce income from it.

5.3.4 If arrangements are made which allow a Holder to take up any rights in Lancashire Holdings Securities requiring further payment from a Holder, it must if it wishes the Depositary to exercise such rights on its behalf put the Depositary in cleared funds before the relevant payment date or such other date that the Depositary may notify the Holders in respect of such rights.

5.3.5 The Depositary will accept all compulsory purchase and similar notices in respect of Lancashire Holdings Depositary Interests but will not, and the Custodian will not, exercise choices, elections or voting or other rights or entitlements in the absence of express instructions from the relevant Holder.

5.3.6 The Depositary shall re-allocate any Lancashire Holdings Securities or distributions which are allocated to the Custodian and which arise automatically out of any right or entitlement to Deposited Lancashire Holdings Securities to Holders pro-rata to the Deposited Lancashire

Holdings Securities held for their respective accounts provided that the Depositary shall not be required to account for any fractional entitlements arising from such re-allocation which fractional entitlements shall be aggregated and given to charity.

5.3.7 Any other rights or entitlements shall be passed on to or, as the case may be exercised on behalf of, Holders in such manner and by such means as the Depositary shall in its absolute discretion determine. Where the rights or entitlements consist of reports, notices, circulars or other information received by the Custodian, the obligation to pass them on is subject to the Custodian having received a sufficient number of each such document to pass on one copy to each Holder.

5.4 The Depositary will not be bound to take notice of, nor to see to the carrying out of, any trust, mortgage, charge, pledge or claim in favour of any other person. A receipt from a Holder (or from a Holder's personal representatives or nominated transferee in accordance with clause 6) for the Lancashire Holdings Depositary Interests will free the Depositary from responsibility to any such other person in respect of any such interest. The Depositary may ignore any notice it receives of the right, title, interest or claim of any other person to an interest in those assets, except where the interest is conferred by operation of law.

6. WITHDRAWAL OF DEPOSITED PROPERTY ON TRANSFER AND RELATED MATTERS

6.1 Subject to the provisions of this Deed, the Depositary shall only cancel Lancashire Holdings Depositary Interests and transfer the Deposited Property represented thereby upon the request of the Holder.

6.2 The receipt by the Depositary of either a Stock Withdrawal Transaction into Own Name or a Stock Withdrawal Transaction into New Name for a specified number of Lancashire Holdings Depositary Interests shall in addition to the meaning attributed to it within the CREST system (if different) be deemed to constitute:

6.2.1 in the event of a Stock Withdrawal Transaction into New Name, an irrevocable instruction to the Lancashire Holdings Depositary Interest Registrar to debit the account on the Lancashire Holdings Depositary Interest Register of the CREST member who issued such Stock Withdrawal Transaction and credit the account of the transferee specified in such Stock Withdrawal Transaction, whether or not a CREST member, in each case with the relevant number of Lancashire Holdings Depositary Interests and for the avoidance of doubt any such transferee whether or not a CREST member shall not become a Holder;

6.2.2 in the event of a Stock Withdrawal Transaction (whether into New Name or Own Name) an irrevocable request from the Holder on the Lancashire Holdings Depositary Interest Register for those Lancashire Holdings Depositary Interests to be cancelled and for the Deposited Property represented thereby to be withdrawn; and

6.2.3 an irrevocable instruction from the Holder on the Lancashire Holdings Depositary Interest Register to the Custodian to forthwith transfer the relevant Deposited Property to the transferee specified in such Stock Withdrawal Transaction into New Name or, in the case of a Stock Withdrawal Transaction into Own Name, the Holder of the relevant Lancashire Holdings Depositary Interests (in either case the "Transferee") and to pay any money comprised in or referable to the Deposited Property relating to such Lancashire Holdings Depositary Interests to such Transferee.

6.3 In respect of any transfer to the Transferee:

6.3.1 The Depositary shall be entitled to deliver to the Transferee, in lieu of the relevant Deposited Lancashire Holdings Securities to which he is entitled, any securities into which such Deposited Lancashire Holdings Securities have been converted, sub-divided, re-denominated or consolidated, any securities which are substituted by Lancashire Holdings for such Deposited Lancashire Holdings Securities or any proceeds and/or securities received or issued in lieu of such Deposited Lancashire Holdings Securities as a result of any corporate event of or affecting Lancashire Holdings; and

6.3.2 without prejudice to the generality of clause 6.3.1, where the Depositary has at the direction of the Holder assented Deposited Lancashire Holdings Securities to a third party pursuant to a take-over offer, the Depositary shall deliver to the Transferee in question the proceeds and/or securities received in respect of the assented Deposited Lancashire Holdings Securities attributed to the Lancashire Holdings Depositary Interests being withdrawn in lieu of such Deposited Lancashire Holdings Securities;

in each case as soon as practicable following receipt if the same have not been received by the Depositary by the time of receipt of the relevant Stock Withdrawal Transaction whether into Own Name or into New Name.

6.4 Notwithstanding the provisions of clause 6, the Depositary shall not be required to make arrangements for the transfer of Lancashire Holdings Securities of a particular Class during any period when the Share Register is closed.

6.5 The Depositary shall not be liable to a Holder or a Transferee if any Deposited Property cannot be delivered to or to the order of a Transferee by reason of any prohibition imposed upon the Depositary or the Holder by applicable law or any other matter beyond the Depositary's reasonable control.

6.6 Notwithstanding the withdrawal of Deposited Lancashire Holdings Securities under this clause 6, income distributions attributable thereto will be dealt with in accordance with clause 5.

6.7 Any person requesting cancellation of Lancashire Holdings Depositary Interests may be required by the Depositary to furnish it with such reasonable proof, certificates and representations and warranties as to matters of fact, including, without limitation, as to his identity and with such further documents and information as the Depositary may reasonably deem necessary or appropriate for the administration or implementation of this Deed in accordance with applicable laws and regulations. The Depositary may withhold delivery of the Deposited Property until such items are so furnished.

7. COMPULSORY WITHDRAWAL

7.1 If it shall come to the notice of the Depositary, or if the Depositary shall have reason to believe, that any Lancashire Holdings Depositary Interests:

7.1.1 are owned directly or beneficially by any person in circumstances which, in the opinion of the Depositary, might result in the Depositary or the Custodian suffering any liability to taxation or pecuniary, fiscal or material regulatory disadvantage which it might not otherwise have suffered; or

7.1.2 are owned directly or beneficially by, or otherwise for the benefit of, any person in breach of any law or requirement of any jurisdiction or governmental authority or so as to result in ownership of any Lancashire Holdings Securities exceeding any limit under, or otherwise infringing the Memorandum and Bye-Laws or other constitutive documents of or law applicable to Lancashire Holdings or the terms of issue of the Lancashire Holdings Securities; or

7.1.3 are owned directly or beneficially by, or otherwise for the benefit of, any person who fails to furnish to the Depositary such proof, certificates and representations and warranties as to matters of fact, including, without limitation, as to his identity, as the Depositary may deem necessary or appropriate for the administration or implementation of this Deed in accordance with applicable laws and regulations, including (without limitation) information specified in the CREST Manual; or

7.1.4 are owned by a Holder who ceases at any time to be, or is suspended in whole or in part as, a CREST member for any reason; or

7.1.5 cease to be capable of being held in the CREST system; or

7.1.6 are held by a Holder who has failed to duly and punctually perform any obligation to the Depositary or Custodian or Lancashire Holdings imposed upon him by virtue of this Deed or any

other agreement or instrument to which he is a party or by which he is bound with respect to those or any other Lancashire Holdings Depositary Interests, and in relation to whom the Depositary determines that it is appropriate that the provisions of this clause shall apply,

then the Holder shall be deemed to have requested the cancellation of his Lancashire Holdings Depositary Interests and the withdrawal of the Deposited Lancashire Holdings Securities represented by his Lancashire Holdings Depositary Interests.

7.2 If any regulatory authority refuses to approve the holding of the Depositary or the Custodian of Lancashire Holdings Securities at or above a certain level, and requires the Depositary or Custodian to divest itself of some or all of the Lancashire Holdings Securities held by it, then:

7.2.1 the Depositary will consult with Lancashire Holdings as to what action it proposes to take; and

7.2.2 a Holder or Holders (as appropriate) will be deemed to have requested the cancellation of their Lancashire Holdings Depositary Interests and the withdrawal of the Lancashire Holdings Securities represented by those Lancashire Holdings Depositary Interests.

In deciding what action to take the Depositary will start from the presumption that all Holders should have their Lancashire Holdings Depositary Interests cancelled proportionally, but this presumption may be departed from in any particular case if, in the Depositary's view, the circumstances make it appropriate to do so.

7.3 On the Holder being deemed, at the election of the Depositary, to have requested the withdrawal of the Deposited Lancashire Holdings Securities represented by his Lancashire Holdings Depositary Interests pursuant to clause 7.1 or clause 7.2, the Depositary shall make such arrangements to the extent practicable and permitted by applicable law and regulation for the delivery of the Deposited Property represented by the Holder's Lancashire Holdings Depositary Interests to the Holder as the Depositary shall think fit. Without limitation, the Depositary may:-

7.3.1 arrange for the Lancashire Holdings Depositary Interests of such Holder to be transferred (or cancelled and re-issued) to a CREST member selected by the Depositary who shall hold the same as nominee for such Holder on such terms as the Depositary or that CREST member shall think fit; or

7.3.2 arrange for such Lancashire Holdings Depositary Interests to be cancelled and for the Deposited Property represented thereby to be transferred to such Holder; or

7.3.3 in its absolute discretion, liquidate all or part of the Deposited Property and deliver the net proceeds in respect thereof to the Holder.

The Depositary shall be entitled to deduct such fees, costs, duties, taxes and charges as may be applicable and any other sums owing to the Depositary in accordance with the provisions of this Deed from the Deposited Property or from the net proceeds thereof before delivering the same to the Holder. If any official consents need to be obtained prior to the delivery of the Deposited Property or the net proceeds thereof to the Holder, the Depositary shall make such arrangements with respect to the Deposited Property or the net proceeds thereof as it shall see fit.

8. AUTHORISATIONS, CONSENTS, etc

8.1 The Depositary warrants that it is an authorised person under the FSMA and is duly authorised to carry out the custodial and other activities required of it by this Deed in accordance with that Act and undertakes that, if and so long as this Deed remains in force, it shall, at its own burden and expense, maintain that status and authorisation or any corresponding status under any legislation or regulatory requirement in England which may from time to time apply to the carrying on of such activities in addition to or in substitution for the requirements of the FSMA. Subject to clause 9, the Depositary further warrants that it shall, and shall procure that every Lancashire Holdings Depositary Interest Registrar, Custodian, Agent or other person appointed by the Depositary pursuant to this Deed shall, at

all times and in all respects comply with and maintain in place all necessary registrations/notifications and procedures to comply with the Data Protection Act 1998 at no cost to any Holder.

8.2 Subject to clause 8.1, if any other governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required in order for the Depositary to receive Lancashire Holdings Securities to be deposited hereunder and/or for Lancashire Holdings Depositary Interests representing the same to be issued pursuant to this Deed, or in order for Lancashire Holdings Securities or other securities or property to be distributed or to be subscribed or acquired in accordance with the provisions prescribed in or pursuant to this Deed, the prospective Holder shall apply for such authorisation, consent, registration, or permit or file such report within the time required. The Depositary shall not be bound to issue Lancashire Holdings Depositary Interests or distribute, subscribe or acquire Lancashire Holdings Securities or other property with respect to which such authorisation, consent, registration, permit or such report shall not have been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary and only without unreasonable burden or expense.

9. LIABILITY

9.1 The Depositary shall not incur any liability to any Holder or to any other person for any Liabilities suffered or incurred, arising out of or in connection with the performance or non-performance of its obligations or duties whether arising under this Deed (other than those specified in clauses 2.2 and 3.2) or otherwise save to the extent that such Liabilities result from its negligence or wilful default or fraud or that of any person for whom the Depositary is vicariously liable provided that the Depositary shall not incur any such liability as a result of the negligence or wilful default or fraud of any Custodian or Agent which is not a member of the same group of companies as the Depositary unless the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or Agent. Nor shall the Depositary incur any such liability if any Liability suffered or incurred by the Holder is attributable to or results from the negligence or wilful default or fraud of the Operator or Lancashire Holdings or the acts or omissions of any person who provides banking services in connection with the CREST system. Except in the case of personal injury or death, any liability incurred by the Depositary to a Holder under this Deed will be limited to:

9.1.1 the value (at the date the act, omission or other event giving rise to the liability is discovered and as if such act, omission or other event had not occurred) of the Deposited Property that would have been properly attributable (if such act, omission or other event had not occurred) to the Lancashire Holdings Depositary Interests to which the liability relates; or if less;

9.1.2 that proportion of £10 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the Holder bears to the aggregate of the amounts that the Depositary would otherwise be liable to pay to all or any Holders in respect of the same act, omission or event which gave rise to such liability or if there are no such other amounts, £10 million.

9.2 The Depositary shall not incur any liability to any Holder or to any other person if, by reason of:

9.2.1 any provision of any present or future law or regulation of any jurisdiction or of any governmental authority, or by reason of the interpretation thereof; or

9.2.2 any compulsory withdrawal pursuant to clause 7 (but without prejudice to the Depositary's obligations under clause 7.3); or

9.2.3 the Memorandum and Bye-Laws or other constitutive documents of Lancashire Holdings; or

9.2.4 the provisions of the CREST Manual or CREST Rules or the application thereof; or

9.2.5 any refusal or failure of the Operator or of any other person to provide any service in relation to the CREST system or any operational failure of the CREST system; or

9.2.6 any act or omission of Lancashire Holdings; or

9.2.7 any computer failure; or

9.2.8 any circumstance beyond the reasonable control of the Depositary,

the performance by it or any other person of any act or thing which is required or permitted or contemplated to be done or performed by or pursuant to this Deed shall be prevented or delayed or required to be effected in some manner or to an extent which is different in any respect from that provided for or contemplated by this Deed.

9.3 If and to the extent that by virtue of laws of any jurisdiction outside the UK, or the application or operation of those laws in any particular event or circumstance, or by virtue of the provisions of the Memorandum and Bye-Laws or other constitutive documents of Lancashire Holdings or the application or operation of those provisions in any particular event or circumstance, the Depositary or the Custodian does not acquire unconditional and absolute title or right to any Deposited Property, or acquires a title or right to any Deposited Property which is in any manner encumbered or defective or liable to be displaced or avoided, or where as a result of an event or circumstance beyond the Depositary's reasonable control the Deposited Property is reduced or depleted or the Depositary does not hold sufficient Lancashire Holdings Securities to cover the Lancashire Holdings Depositary Interests in issue, neither the Depositary nor the Custodian shall be in any way liable to any Holder or any other person by reason thereof; but in any such case the Depositary shall be entitled to take or cause to be taken such action as shall in its opinion be reasonable or appropriate, including without limitation the cancellation without compensation of the Lancashire Holdings Depositary Interests of any Holder(s) determined by the Depositary whether or not such Holder(s) are in any way responsible for the relevant event or circumstance; and each Holder agrees that, by acquiring and holding Lancashire Holdings Depositary Interests representing Lancashire Holdings Securities by means of the arrangements contemplated by this Deed, he accepts the risk that, by virtue of such laws or terms and conditions, or the application or operation thereof, or any such event or circumstance, his interest in any relevant Deposited Property may not be entire, complete and unimpeachable.

If the Depositary becomes entitled to take or cause to be taken action as aforesaid, it will in its sole discretion consider whether it may directly or indirectly transfer or make available to any Holder adversely affected, in whole or in part, the benefit of any rights, claims or other assets which may be available to the Depositary and which pertain to the matter(s) giving rise to the relevant event or circumstance.

9.4 The Depositary may rely on, and shall not be liable for any loss suffered by any Holder or any other person by reason of its having accepted (or the Custodian or any other Agent or Lancashire Holdings or its agents having accepted) as valid and having relied upon, any written notice, request, direction, transfer, certificate for Lancashire Holdings Securities (or other securities), electronic communication or any other document or any translation thereof or communication reasonably believed by it in good faith to be genuine notwithstanding that the same shall have been forged or shall not be genuine or accurate or shall not have been duly authorised or delivered.

9.5 The Depositary may act, or take no action, on the advice or opinion of, or in reliance upon, any certificate or information obtained from, Lancashire Holdings or any reputable lawyer, valuer, accountant, banker, broker, information provider, settlement system operator, registrar or other expert whether obtained by Lancashire Holdings, the Depositary or otherwise and shall not except where any such person is a member of the same group of companies as the Depositary be responsible or liable to any Holder or any other person for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons depositing Lancashire Holdings Securities or otherwise entitled to the issue of Lancashire Holdings Depositary Interests. Any such advice, opinion, certificate or information may be sent or obtained by letter, telex, facsimile transmission, e-mail, telegram, cable or other electronic communication and the Depositary shall not be liable for acting on any such advice, opinion, certificate or information notwithstanding that the same shall have been forged or shall not be genuine or accurate.

9.6 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other written communication, purporting to be signed on behalf of Lancashire Holdings by a director of Lancashire Holdings or by a person duly authorised in writing by a director of Lancashire Holdings or such other certificate from any such person as is specified in clause 9.5 which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible to any Holder or any other person for any loss or liability that may be occasioned by the Depositary acting on such certificate.

9.7 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by Lancashire Holdings of any of its obligations, including, without limitation, those arising under or in connection with applicable law, or any contract or instrument to which Lancashire Holdings is a party or by which it or any of its assets is bound. The Depositary makes no representation or recommendation to any person regarding the financial condition of Lancashire Holdings or the advisability of acquiring Lancashire Holdings Depositary Interests or Lancashire Holdings Securities or other property or as to the type or character or suitability thereof and takes no responsibility for the operations of Lancashire Holdings or the effect thereof on the value of the relevant Lancashire Holdings Securities or Lancashire Holdings Depositary Interests or any rights derived therefrom.

9.8 The Depositary, the Custodian and any Agent may engage or be interested in any financial or other business transactions with Lancashire Holdings or any other member of any group of which Lancashire Holdings is a member, or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in Lancashire Holdings Depositary Interests for their own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by them otherwise than in the capacity of Depositary or Custodian or Agent (as the case may be) in relation to matters arising under this Deed (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to the Holders or any other person for any profit arising therefrom.

9.9 The Depositary shall endeavour to effect any sale of securities or other property or transferable right and any conversion of currency as is referred to or contemplated by this Deed in accordance with its normal practices and procedures but shall have no liability with respect to the terms of such sale or conversion or if the effecting of such sale or conversion shall not be reasonably practicable.

9.10 The Depositary shall have no responsibility whatsoever to any Holder or any other person as regards any deficiency which might arise because the Depositary is subject to or accountable for any tax in respect of any or any part of the Deposited Property or any income or capital distribution or other payment arising therefrom or any proceeds of sale thereof. The Depositary shall be entitled to make such deductions from the Deposited Property or any income or capital arising therefrom or to sell all or any of the Deposited Property and make such deductions from the proceeds of sale thereof as may be required by applicable law in order to comply with its obligations to account for any tax liability in respect thereof.

9.11 Without prejudice to any other powers which the Depositary may have hereunder, the Depositary shall be entitled to enter into any agreement with or give any undertakings to any relevant taxation authority concerning the taxation status of the transactions effected pursuant to this Deed and to do all such things as may be required under the terms of any such agreement or undertakings.

9.12 Notwithstanding anything else contained in this Deed but subject always to the rights of a Holder under clause 5, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any of the CREST Rules or any regulation or requirement of any regulatory authority or other body which is binding upon it, or which would or might otherwise in its reasonable opinion render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, regulation or requirement or which is in its reasonable opinion necessary to avoid any such liability.

9.13 No provision of this Deed shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers hereunder. If, notwithstanding this provision, the Depositary reasonably does so, it shall be entitled to make such deductions from the Deposited Property or any income or capital arising therefrom or to sell all or any of the Deposited Property and make such deductions from the proceeds of sale thereof as may be required to account for any loss or liability suffered by the Depositary in respect thereof.

9.14 All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from Holders or their agents will be delivered to or sent to or from them at their own risk.

9.15 The Depositary shall not be liable to a Holder in respect of any of its obligations under this Deed if it is unable to fulfil those obligations by reason of any prohibition imposed upon the Depositary or the Holder by applicable law, any benefit attaching to Lancashire Holdings Securities being unable to pass through the CREST system and alternative arrangements not being agreed with Lancashire Holdings or any other matter beyond the Depositary's reasonable control.

10. DEPOSITARY'S FEES AND EXPENSES

10.1 The Depositary shall be entitled to charge Holders in respect of the provision of its services under this Deed the fees and expenses notified from time to time.

10.2 The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Lancashire Holdings Securities or other Deposited Property or the Lancashire Holdings Depositary Interests, whether under any present or future fiscal or other laws or regulations or otherwise, and such part thereof as is proportionate or in the opinion of the Depositary referable to a Lancashire Holdings Depositary Interest shall be payable by the Holder thereof to the Depositary at any time on request; or may be deducted from Deposited Property held for the account of the Holder and/or from any amount due or becoming due on such Deposited Property in respect of any dividend or other distribution. In default thereof, the Depositary may in its sole discretion sell, and for the account of the Holder discharge the same out of the proceeds of sale of, any appropriate number of Deposited Lancashire Holdings Securities or other Deposited Property, and subsequently pay any surplus to the Holder.

11. INDEMNITIES

11.1 A Holder shall be liable for and shall indemnify the Depositary and the Custodian and their respective agents, officers and employees and hold each of them harmless from and against, and shall reimburse each of them for, any and all Liabilities, arising from or incurred in connection with, or arising from any act performed in accordance with or for the purposes of or otherwise related to, this Deed insofar as they relate to Deposited Property held for the account of, or Lancashire Holdings Depositary Interests held by, that Holder, except for Liabilities caused by or resulting from any wilful default or negligence or fraud of (i) the Depositary or (ii) the Custodian or any Agent if such Custodian or Agent is a member of the same group of companies as the Depositary or if, not being a member of the same group of companies, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or Agent. The Depositary shall be entitled to make such deductions from the Deposited Property or any income or capital arising therefrom or to sell all or any of the Deposited Property and make such deductions from the proceeds of sale thereof as may be required to discharge the obligations of the Holder(s) under this clause.

11.2 The obligations of each Holder under clause 11.1 shall survive any termination of this Deed in whole or in part and any resignation or replacement of the Depositary and any Custodian.

11.3 Should any amount paid or payable under this Deed by a Holder be itself subject to tax in the hands of the recipient or be required by law to be paid under any deduction or withholding, the relevant Holder(s) will pay such sums as will after any such tax, deduction or withholding leave the recipient with the same amount as he would have had if no such tax had been payable and no deduction or

withholding had been made and such payments and adjustments shall be made as may be necessary to give effect to this clause 11.3.

12. AGENTS

12.1 The Depositary may from time to time appoint one or more Agents on such terms as the Depositary may think fit to perform any obligations of the Depositary under this Deed and the Depositary may remove any such Agent.

12.2 In particular but without prejudice to the generality of clause 12.1, the Depositary shall be entitled to delegate by power of attorney or otherwise to any Agent, all or any of the powers, authorities and discretions vested in the Depositary by this Deed and such delegation may be made upon such terms and subject to such conditions, including the power to sub-delegate, as the Depositary may think fit.

12.3 Notice of any appointment or removal pursuant to clause 12.1 or any delegation pursuant to clause 12.2 shall, where such matter is in the opinion of the Depositary material to the Holders of any series of Lancashire Holdings Depositary Interests, be given by or for the Depositary to the Holders of that or those series.

13. RESIGNATION OF THE DEPOSITARY

13.1 Subject to clause 13.2, the Depositary may resign as Depositary by giving at least 30 days' prior notice in writing to that effect to the Holders.

13.2 The resignation of the Depositary shall take effect on the date specified in such notice provided that no such resignation shall take effect until the appointment by the Depositary of a successor Depositary. The Depositary undertakes to use its reasonable endeavours to procure the appointment of a successor Depositary with effect from the date specified in such notice as soon as reasonably practicable following the giving of notice of resignation. Upon any such appointment and acceptance, notice thereof shall be given by or for the Depositary to the Holders as soon as reasonably practicable.

13.3 Upon the resignation of the Depositary (referred to in this clause 13.3 as the "Retiring Depositary") and against payment of all sums due to the Retiring Depositary under this Deed, the Retiring Depositary shall deliver to its successor as Depositary (the "Successor") sufficient information and records to enable the Successor efficiently to perform its obligations under this Deed and shall transfer to the Successor or to a Custodian or other Agent appointed by the Successor all Deposited Property held by the Retiring Depositary as trustee under this Deed. Upon the date when such resignation takes effect, any Custodian appointed by the Retiring Depositary shall be instructed by the Retiring Depositary to transfer to the Successor or to a Custodian or other Agent appointed by the Successor the Deposited Property held by it pursuant to this Deed.

14. TERMINATION OF DEED

14.1 The Depositary may terminate this Deed either in its entirety or in respect of one or more series of Lancashire Holdings Depositary Interests by giving not less than 30 days' prior notice to that effect to the Holders of the Lancashire Holdings Depositary Interests concerned.

14.2 Termination of this Deed for whatever reason shall be without prejudice to any and all accrued rights, obligations and liabilities of the Depositary and any Holder as at the date of termination.

14.3 During the period from the giving of such notice to the Holders until termination, each Holder shall be entitled to cancel the Lancashire Holdings Depositary Interests held by it and withdraw the Deposited Property related thereto in accordance with the terms of this Deed.

14.4 If any Lancashire Holdings Depositary Interests in respect of which this Deed is terminated remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable (i) deliver the Deposited Property then held by it under this Deed in respect of the Lancashire Holdings Depositary Interests to the respective Holder; or, at its discretion (ii) sell all or part of such Deposited Property; (iii) request the Operator to remove the relevant Lancashire Holdings Depositary Interests

from the CREST system and (iv) following such removal shall not register transfers of the relevant Lancashire Holdings Depositary Interests, pass on dividends or distributions or take any other action in respect of such Deposited Property, except that it shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums then due to the Depositary, together with any other cash then held by it under this Deed, pro rata to Holders in respect of their Lancashire Holdings Depositary Interests. After making such sale, the Depositary shall, without prejudice to clause 14.2, be discharged from all further obligations under this Deed, except its obligation to account to Holders for such net proceeds and other cash comprising the Deposited Property without interest.

14.5 For the avoidance of doubt, any obligations of a Holder herein to make payments to the Depositary and indemnify it shall survive any such termination.

15. AMENDMENT OF DEED

15.1 All and any of the provisions of this Deed (other than this clause) may at any time and from time to time be amended or supplemented by the Depositary in any respect which it may deem necessary or desirable by a deed supplemental to this Deed.

15.2 Notice of any amendment or supplement, other than an amendment or supplement of a minor or technical nature which does not in the reasonable opinion of the Depositary materially affect the interests of the Holders of the Lancashire Holdings Depositary Interests concerned, shall be given by or for the Depositary to the Holders of such series within 30 days of the amendment or supplement taking effect.

15.3 Any amendment or supplement which shall, in the reasonable opinion of the Depositary, be materially prejudicial to the interests of the Holders as a whole or to the Holders of one or more series of Lancashire Holdings Depositary Interests shall only be made following consultation with Lancashire Holdings and shall not take effect until 40 days after service of notice on the Holders at which time the Holders shall be deemed to have accepted the amendment or supplement.

15.4 The Depositary shall not be obliged to have regard to the consequences for the Holders of any proposed amendment or supplement to this Deed or the exercise of any power conferred on the Depositary by this Deed except to the extent expressly provided in this Deed.

16. FURTHER ACKNOWLEDGEMENTS BY THE HOLDER

16.1 The Holder acknowledges and agrees that:-

16.1.1 the Depositary has no responsibility for the operation or non-operation of the CREST system; accordingly, the Depositary shall be entitled without further enquiry to execute or otherwise act upon instructions or information or purported instructions or information received by means of the CREST system notwithstanding that it may afterwards be discovered that such instructions or information were not genuine or were not initiated by the Operator, a CREST member or other person authorised to give them; any such execution or action by the Depositary shall, save in the case of wilful default or reckless disregard of its obligations, constitute a good discharge to the Depositary, which shall not be liable for any Liabilities suffered or incurred by the Holder or any other person arising in whatever manner directly or indirectly from and/or as a result of such execution or action;

16.1.2 the Depositary and the Custodian rely on Lancashire Holdings and/or the Share Registrar to supply information relating to cash distributions, corporate actions, forthcoming meetings of the holders of those securities and other matters having a bearing on the rights of persons holding Lancashire Holdings Depositary Interests representing Lancashire Holdings Securities; accordingly the content of the information made available to Holders and the time at which such information is available will reflect the content of and timing of the supply of information to the Depositary, the Custodian or its nominee, for which no responsibility is accepted;

16.1.3 the Holder shall not cause or endeavour to cause the Depositary, the Custodian or its nominee to make or assert any right or claim whatsoever against the Operator or Lancashire Holdings or its directors, officers, employees or agents;

16.1.4 the Depositary and the Custodian may hold Holders' money entitlements in client bank accounts outside the UK on a pooled basis pending distribution and such money may not be protected as effectively as money held in a bank account in the UK; in particular, the relevant bank may be entitled to combine funds held in a client bank account with any other account of the Depositary or the Custodian or to exercise any right of set-off or counterclaim against money held in a client bank account in respect of any sum owed to it on any other account by the Depositary or the Custodian;

16.1.5 the Depositary undertakes to take reasonable care in the selection and continued use of any person who provides banking and related services in connection with the Deposited Lancashire Holdings Securities but neither the Depositary nor the Custodian is responsible for the acts or omissions of any such person; and the Holder further acknowledges and agrees that any such person is responsible only to any or both of the Depositary and the Custodian and undertakes to take no action to recover damages, compensation or payment or remedy of any other nature from any such person; and that

16.1.6 nothing in this Deed shall prevent the Depositary carrying out nominee or depositary services for anybody else.

17. LIABILITY TO PAY STAMP DUTY RESERVE TAX

17.1 The Holder agrees and acknowledges that if and to the extent that stamp duty reserve tax ("SDRT") is not payable on agreements to transfer certain Lancashire Holdings Depositary Interests by virtue of the Stamp Duty Reserve Tax (UK Depositary Interests in Foreign Securities) Regulations 1999, it shall be the responsibility of the Holder, and not the Depositary or any other person, to ensure that any Lancashire Holdings Depositary Interests which the Holder is proposing to acquire or dispose of by means of the CREST system and which are identified by the CREST system as being exempt from the charge to SDRT on their transfer are so exempt.

17.2 The Holder undertakes:

17.2.1 to notify the Operator and the Depositary forthwith if Lancashire Holdings Depositary Interests which the Holder is proposing to acquire or dispose of by means of the CREST system and which are identified by the CREST system as being exempt from the charge to SDRT on their transfer are not so exempt; and

17.2.2 to pay to the Operator any SDRT and any interest, charges or penalties in relation to late or non-payment of SDRT arising directly or indirectly from any agreement of the Holder to acquire or dispose of Lancashire Holdings Depositary Interests or Lancashire Holdings Securities represented or to be represented by Lancashire Holdings Depositary Interests which are not exempt for whatever reason from the charge to SDRT on their transfer and to hold the Depositary harmless from any and all Liabilities arising from or incurred in connection therewith.

17.3 For the purposes of this clause 17, a CREST member will be taken to be proposing to acquire Lancashire Holdings Depositary Interests or to have entered into an agreement to acquire Lancashire Holdings Depositary Interests if he acquires Lancashire Holdings Depositary Interests from another CREST member or if the Lancashire Holdings Depositary Interests are to be issued to him and to be proposing to dispose of Lancashire Holdings Depositary Interests or to have entered into an agreement to dispose of Lancashire Holdings Depositary Interests if he disposes of Lancashire Holdings Depositary Interests to another CREST member or if the Lancashire Holdings Depositary Interests would, as a result, be cancelled.

18. REGULATORY REQUIREMENTS

18.1 The Depositary is regulated in the conduct of its investment business (which for these purposes is taken to refer to the safeguarding and administration of the holdings of Lancashire Holdings Securities in the manner described in this Deed) by the FSA. The following further provisions apply in relation to such investment business.

18.2 The Holder may give instructions to the Depositary in the manner described in this Deed. The Depositary will not specifically acknowledge such instructions.

18.3 The Depositary has established procedures in accordance with the requirements of the FSA for the effective consideration of complaints by Holders. All formal complaints should be made in writing to the compliance officer of the Depositary at the registered office address of the Depositary from time to time. In addition, Holders have a right of complaint direct to the Financial Ombudsman Service.

18.4 A statement is available from the Depositary describing Holders' rights to compensation if the Depositary is unable to meet its liabilities.

18.5 None of the Depositary, the Custodian or its nominee shall (a) arrange for any Lancashire Holdings Securities or other Deposited Property to be lent to any other person, or (b) charge in favour of any other person any such property as security.

19. DISCLOSURE OF OWNERSHIP, etc

19.1 The Depositary or the Custodian may from time to time require from any Holder or former or prospective Holder:

19.1.1 information as to the capacity in which such Holder owns, owned, holds or held Lancashire Holdings Depositary Interests and regarding the identity of any other person or persons who then or previously has or has had any interest of any kind whatsoever in such Lancashire Holdings Depositary Interests and/or the underlying Lancashire Holdings Securities represented thereby and the nature of any such interest; and

19.1.2 evidence or declaration of nationality or residence of the legal or beneficial owner(s) of Lancashire Holdings Depositary Interests registered or to be registered in his name and such information as is required for the transfer of the relevant Lancashire Holdings Securities to the Holder,

and such other information as may be necessary or desirable for the purposes of this Deed or any other agreement or arrangement relating to the CREST system. Each Holder agrees to provide any such information requested by Lancashire Holdings or the Depositary or the Custodian and consents to the disclosure of such information by the Depositary or Custodian or Lancashire Holdings to the extent necessary or desirable to comply with their respective legal or regulatory obligations in any jurisdiction or any provision of the Memorandum and Bye-Laws or other constitutive documents of Lancashire Holdings.

19.2 To the extent that provisions of or governing any Lancashire Holdings Securities or the Memorandum and Bye-Laws or other constitutive documents of Lancashire Holdings or applicable law or regulation in any jurisdiction may require the disclosure to Lancashire Holdings of, or limitations in relation to, beneficial or other ownership of or any interest of any kind whatsoever in Lancashire Holdings Securities or other securities, the Holders of Lancashire Holdings Depositary Interests shall comply with the provisions of such Memorandum and Bye-Laws, constitutive documents and applicable laws and regulations and with Lancashire Holdings' instructions in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary. Holders shall comply with all such disclosure requirements of Lancashire Holdings from time to time.

20. NOTICES

20.1 Any notice shall be in writing and signed by or on behalf of the person giving it. Except in the case of personal service, any such notice shall be sent or delivered to the party to be served, in the case of the Depositary, at the address set out above and marked for the attention of the Company Secretary and, in the case of a Holder, at the address set out in the Lancashire Holdings Depositary Interest Register. Any alteration in the details of the party to be served shall, to have effect, be notified to the other party in accordance with this clause. Service of a notice must be effected by one of the following methods:-

20.1.1 personally on any person or on a director or officer or the secretary of any party and shall be treated as served at the time of such service;

20.1.2 by prepaid first class post (or by airmail if from one country to another) and shall be treated as served on the second (or if by airmail the fourth) business day after the date of posting. In proving service it shall be sufficient to prove that the envelope containing the notice was correctly addressed, postage paid and posted;

20.1.3 by delivery of the notice through the letterbox of the party to be served and shall be treated as served on the first business day after the date of such delivery;

20.1.4 if by fax when received in a legible form; or

20.1.5 if by e-mail or other electronic communication (such contact details as agreed by the party to be served) when received in a legible form.

21. SEVERABILITY

If at any time any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Deed.

22. COPIES OF DEED

A Holder shall be entitled to one copy of this Deed upon payment of a reasonable copying charge upon written request made to the Depositary.

23. GOVERNING LAW AND JURISDICTION

23.1 This Deed and the Lancashire Holdings Depositary Interests shall be governed by and construed in accordance with English law.

23.2 For the benefit of the Depositary, the Holder irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with this Deed. For such purposes, the Holder irrevocably submits to the jurisdiction of the courts of England.

23.3 The Holder irrevocably waives any objection which it might now or hereafter have to the courts referred to in clause 23.2 being nominated as the forum to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with this Deed and agree not to claim any such court is not a convenient or appropriate forum.

23.4 The submission to the jurisdiction of the courts referred to in clause 23.2 shall not (and shall not be construed so as to) limit the right of the Depositary to take proceedings against the Holder in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

24. OVERRIDING PROVISIONS

24.1 For so long as the Lancashire Holdings Depositary Interests remain a participating security in CREST, no provision of this Deed or of any other instrument relating to the Lancashire Holdings Depositary Interests of that series shall apply or have effect to the extent that it is in any respect inconsistent with:-

24.1.1 the holding of the Lancashire Holdings Depositary Interests in uncertificated form;

24.1.2 the transfer of title to the Lancashire Holdings Depositary Interests by means of a relevant system; or

24.1.3 the Regulations.

24.2 Without prejudice to the generality of clause 24.1 and notwithstanding anything contained in this Deed or any such instrument:-

24.2.1 all Lancashire Holdings Depositary Interest Registers shall be maintained at all times in the UK;

24.2.2 Lancashire Holdings Depositary Interests may be issued in uncertificated form in accordance with and subject as provided in the Regulations;

24.2.3 title to the Lancashire Holdings Depositary Interests which are recorded on a Lancashire Holdings Depositary Interest Register as being held in uncertificated form may be transferred by means of the relevant system concerned;

24.2.4 the Depositary shall comply with the provisions of regulations 25 and 26 of the Regulations in relation to the Lancashire Holdings Depositary Interests;

24.2.5 regulation 41 of the Regulations may be applied by the Depositary where relevant; and

24.2.6 a number of persons up to but not exceeding four may be registered as joint holders of a Lancashire Holdings Depositary Interest.

IN WITNESS whereof this Deed has been duly entered into the day and year first above written.

The Common Seal of
CAPITA IRG TRUSTEES LIMITED
was hereunto affixed in
the presence of:

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1981 of Bermuda, as amended
"Admission"	the admission of the Common Shares, in issue and to be issued pursuant to the Placing, to trading on AIM becoming effective pursuant to the AIM Rules
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules"	the rules of the London Stock Exchange governing the admission to and the operation of AIM
"A.M. Best"	A.M. Best Company, Inc.
"Benfield"	Benfield Group Limited (company number: EC31639) whose registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its subsidiary undertakings from time to time (or any of them)
"Benfield Advisory"	Benfield Advisory Limited, a wholly-owned subsidiary of Benfield
"BMA"	the Bermuda Monetary Authority
"Board" or "Directors"	the directors of the Company for the time being and (where the context requires) comprises those persons whose names appear on page 6 of this document who are directors of the Company on the date of this document or who will become directors of the Company upon Admission and, in the case of Barry Volpert, conditional upon Crestview Partners' subscription for Common Shares pursuant to the Subscription becoming wholly unconditional
"Bye-laws"	the bye-laws of the Company, a summary of which is set out in paragraph 4 of Part 9 – Additional Information
"Capital Z"	Capital Z Financial Services Partners L.P. and its co-investors, affiliates, advisers, limited partners and partners
"Code"	the US Internal Revenue Code of 1986, as amended
"Co-Lead Managers"	Fox-Pitt, Kelton and Teather & Greenwood
"Combined Code"	the Combined Code on Corporate Governance dated July 2003
"Common Shares"	common shares of US$0.50 each in the capital of the Company
"Company"	Lancashire Holdings Limited, a company incorporated in Bermuda with registered number EC37415
"CREST"	the relevant system (as defined in the Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations)
"CRESTCo"	CRESTCo Limited
"CREST Member"	a person who has been admitted by CRESTCo as a system member (as defined in the Regulations)

"Crestview Partners"	Crestview Capital Partners, L.P., Crestview Offshore Holdings (Cayman) L.P., Crestview Capital Partners (ERISA) L.P., Crestview Capital Partners (PF) L.P., Crestview Holdings (TE) L.P. and their co-investors, affiliates, advisers, limited partners and partners
"Cypress"	Cypress Advisors Inc. and its co-investors, affiliates, advisers, limited partners and partners
"Cypress Lancashire"	Cypress Lancashire Partners, L.P. and its co-investors, affiliates, advisers, limited partners and partners
"Debt Financing"	the issue of the Notes
"Dekania"	Dekania Europe CDO I, PLC
"Depository"	Capita IRG Trustees Limited
"Depositary Interest" or "DI"	a depositary interest representing an underlying Common Share, details of which are set out in paragraph 17 of Part 9 – Additional Information
"English Act"	the Companies Act 1985 of England and Wales, as amended
"Executive Directors"	Richard Brindle and Neil McConachie
"Existing Common Shares"	the issued common shares of US$0.50 each (originally issued as common shares of US$0.10 each but which have now been consolidated into Common Shares of US$0.50 each pursuant to the resolution described in paragraph 3.2.3 of Part 9 – Additional Information) in the capital of the Company (or any of them) as the context may require as at the date of this document
"Founder Shareholders"	those Shareholders holding Existing Common Shares at the date of this document being Capital Z Lancashire Partners, L.P., Moore Macro Fund, L.P., OZ Europe Master Fund, Ltd., OZ Master Fund, Ltd., SAB Capital Partners, L.P., SAB Capital Partners II, L.P. and SAB Overseas Master Fund, L.P. and Richard Brindle
"Fox-Pitt, Kelton"	Fox-Pitt, Kelton N.V.
"FSA"	the Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000, as amended
"Fully Diluted Common Share Capital"	the fully diluted common share capital of the Company as calculated on completion of the Placing and Admission and assuming full exercise of all of the Warrants (whether or not vested) and all of the Options (whether issued or reserved for issuance and whether or not vested) and shall include any Common Shares issued and allotted to, or at the direction of, Merrill Lynch as stabilising manager pursuant to any over-allotment option
"Group"	the Company and its subsidiary undertakings from time to time (or any of them)
"HMRC"	Her Majesty's Revenue and Customs
"IAS"	International Advisory Services Limited
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (including those

	International Accounting Standards issued by the International Accounting Standards Committee (IASC) which have been adopted by the IASB, as well as interpretations of International Financial Reporting Standards developed by the International Financial Reporting Interpretations Committee (IFRIC) and approved by the IASB, as endorsed by the European Union
"IID"	International Insurers Department of the National Association of Insurance Commissioners
"Illustrative Projections"	the illustrative summary consolidated financial projections for the Group for the three years ending 31 December 2008 set out in Part A of Part 7 – Illustrative Summary Consolidated Financial Projections of the Group
"Initial Founders"	the Founder Shareholders (and/or their co-investors, affiliates, advisers, limited partners and partners as the context requires), Cypress Lancashire and Crestview Partners
"Institutional Placing Shares"	70,000,000 new Common Shares to be issued in connection with the Placing (other than those issued in connection with the Subscription)
"Insurance Act"	The Insurance Act 1978 and related regulations of Bermuda, as amended
"Insurer"	Lancashire Insurance Company Limited, a company incorporated in Bermuda with registered number EC37472 and being a wholly-owned subsidiary of the Company
"Joint Lead Manager"	JPMorgan Cazenove
"JPMorgan Cazenove"	JPMorgan Cazenove Limited
"Kinmont"	Kinmont Limited
"Lancashire Marketing"	Lancashire Insurance Marketing Services Limited, a company incorporated in England and Wales with registered number 05586830 and being a wholly-owned subsidiary of the Company
"Lead Manager"	Merrill Lynch
"Lock-Up Agreements"	the lock-up agreements entered into by the Company, and, if they hold Common Shares, Directors, the Subscribers, all other related parties and applicable employees (as such terms are defined in the AIM Rules) and certain other persons, details of which are set out in paragraph 16.2 of Part 9 – Additional Information
"London Stock Exchange"	London Stock Exchange plc
"Long Term Incentive Plan"	the long term incentive plan of the Company summarised in paragraph 8 of Part 9 – Additional Information
"Management Team"	Richard Brindle, Neil McConachie and the other members of the Group's senior management described in paragraph 8.2 of Part 2 – Information on the Group
"Managers"	the Lead Manager, the Joint Lead Manager and the Co-Lead Managers
"Merrill Lynch"	Merrill Lynch International

"Montpelier"	Montpelier Re Holdings Limited
"Moore Capital"	Moore Capital Management LLC and each of its co-investors and partners
"New Subscription Agreement"	each new conditional subscription agreement entered into between each of the Subscribers and the Company pursuant to which the Subscribers have agreed to subscribe for 112,013,902 Common Shares in aggregate, further details of which are set out in paragraph 16.3.2 of Part 9 – Additional Information
"Non-Executive Directors"	the Directors named in paragraph 8.1.2 of Part 2 – Information on the Group
"Noteholders"	Dekania, Merrill Lynch and First Tennessee Bank, N.A. and "Noteholder" means any one of them
"Notes"	the debt instruments comprising, collectively, one or more series of trust preferred securities and subordinated notes to be issued by the Company more particularly described at paragraph 16.5 of Part 9 – Additional Information
"Och-Ziff"	OZ Management L.L.C. and each of its co-investors, affiliates, advisers, limited partners and partners
"Officer"	any person appointed by the Board to hold an office in the Company
"Official List"	the Official List of the UK Listing Authority
"Options"	options to acquire Common Shares of the Company under the Long Term Incentive Plan
"Original Subscription"	the subscription for the 16,000,000 Existing Common Shares by the Founder Shareholders pursuant to the Original Subscription Agreements
"Original Subscription Agreements"	each subscription agreement entered into between each of the Founder Shareholders (other than Richard Brindle) and the Company and, in substantially the same form, between Richard Brindle and the Company pursuant to which the Company allotted 16,000,000 Existing Common Shares in aggregate to the Founder Shareholders on 27 October 2005, further details of which are set out in paragraph 16.3.1 of Part 9 – Additional Information
"Placing"	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement, as described in this document
"Placing Agreement"	the conditional agreement dated 13 December 2005 and made between (1) the Company, (2) the Directors and (3) the Managers, further details of which are set out in paragraph 16.1 of Part 9 – Additional Information
"Placing Price"	284 pence per Common Share
"Placing Shares"	Institutional Placing Shares together with Subscription Shares
"Prospectus Directive"	EU Directive 2003/71/EC
"Prospectus Rules"	the prospectus rules made by the UK Listing Authority under section 84 of FSMA brought into force on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004

"Red Rose"	Red Rose Acquisitions, LLC and each of its co-investors, affiliates, advisers, limited partners and partners
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"Relevant Implementation Date"	the date on which the Prospectus Directive was implemented in a Relevant Member State
"Relevant Member State"	each member state of the European Economic Area which has implemented the Prospectus Directive
"RMS"	Risk Management Solutions, Inc.
"SAB"	SAB Capital Management, L.P. and each of its co-investors, affiliates, advisers, limited partners and partners
"Sbi"	Systems Business Integration Ltd.
"SDRT"	stamp duty reserve tax
"Secretary"	the person appointed to perform any or all of the duties of secretary of the Company and includes any deputy or assistant secretary and any person appointed by the Board to perform any of the duties of the Secretary
"Securities Act"	the United States Securities Act of 1933, as amended
"Shareholders"	holders of Common Shares
"sigma"	research publication of Swiss Re
"State Farm"	State Farm Insurance Co.
"Subscribers"	the Initial Founders and any other party subscribing for Subscription Shares in the Subscription
"Subscription"	the conditional subscription for the Subscription Shares by the Subscribers at the Subscription Price pursuant to the New Subscription Agreement
"Subscription Price"	US$5.00 per Common Share
"Subscription Shares"	112,013,902 new Common Shares to be issued in connection with the Subscription
"subsidiary undertakings"	the same meaning given to that term in section 258 of the English Act
"the Takeover Code"	the UK City Code on Takeovers and Mergers
"Teather & Greenwood"	Teather & Greenwood Limited
"TRIA"	the US Terrorism Risk Insurance Act of 2002
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"USA", "US"	the United States of America, its territories and possessions, any state in the United States of America, the District of Columbia and all other areas subject to its jurisdiction

"US terror attacks"	the attacks on the World Trade Center in New York (including the collapse of the World Trade Center Towers) and the Pentagon in Washington DC and the aviation crash in Pittsburgh, all of which occurred on 11 September 2001
"VAT"	value added tax
"Warrants"	the warrants granted by the Company to the Initial Founders, the Management Team and Benfield, further details of which are summarised in Part 8 – Summary of the Warrants.

GLOSSARY

"attritional losses"	losses and directly identified loss adjustment expenses typically arising from lower and more frequent loss activity
"binding authority"	authority given by an insurer or reinsurer to brokers or agents to bind insurance or reinsurance risks on its behalf
"broker"	one who negotiates contracts of insurance or reinsurance, receiving remuneration for placement and other services rendered, between (1) a policy holder and a primary insurer, on behalf of the insured party, (2) a primary insurer and reinsurer, on behalf of the primary insurer or (3) a reinsurer and a retrocessionaire, on behalf of the reinsurer
"casualty insurance"	insurance that is primarily concerned with the losses caused by injuries to third persons (i.e. persons other than the policyholder) and the legal liability imposed on the insured resulting therefrom and reinsurance of such losses
"catastrophe"	a severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability
"catastrophe losses"	losses and directly identified loss adjustment expenses resulting from catastrophes
"cedant"	when a party reinsures its liability with another, it "cedes" business and is referred to as the "cedant" or "ceding company", an alternative for reinsured
"direct insurance"	insurance sold by an insurer that contracts with the insured, as distinguished from reinsurance
"excess of loss"	reinsurance or insurance that covers the reinsured or insured against all or a specified portion of losses over a specified currency amount known as a "retention" or "deductible"
"gross written premiums"	total premiums for insurance written and reinsurance assumed during a given period
"layers"	each of the portions of insurance or reinsurance in which excess of loss policies are written
"miss factor"	an estimate of the extent to which catastrophe or other losses do not affect an insurer's or reinsurer's portfolio of risks as a consequence of selective underwriting
"net premiums written"	gross premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period
"reinsurance"	an arrangement in which a reinsurer agrees to cover another insurer or reinsurer, the cedant, against all or a portion of the insurance or reinsurance risks underwritten by the cedant under one or more policies. Reinsurance can provide a cedant with several benefits, including a reduction in net liability on individual risks and catastrophe protection from large or multiple losses. Reinsurance

	also provides a cedant with additional underwriting capacity by permitting it to accept risks and write more business than would be possible without a concomitant increase in capital and surplus, and facilitates the maintenance of acceptable financial ratios by the cedant. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured
"retrocession"	reinsurance of reinsurance business
"return period"	the estimated frequency of occurrence of a particular event, measured by the number of times it is expected to occur. For example a 1 in 20 return period would indicate that it is expected losses would impact a cover once every 20 years
"structured risk"	insurance and reinsurance contracts, typically multi-year in nature, characterised by the assumption of limited underwriting risk by the assuming company and profit-sharing mechanisms that allow the buyer to benefit from favourable loss experience
"surplus lines"	a generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully "admitted" in various states. Surplus lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator
"syndicate"	a group of Names and/or corporate members underwriting insurance business at Lloyd's through the agency of a managing agent to which a particular syndicate number is assigned by or with the authority of the Council
"unearned premium"	the portion of premiums written that is allocable to the unexpired portion of the policy term

SOURCES

- References in this document to information sourced from RMS are sourced as at 9 December 2005 (being the last practicable date prior to publication of this document) from RMS announcements and press releases. RMS is a provider of products and services for the quantification and management of catastrophe risks.
- References in this document to information sourced from sigma are sourced as at 9 December 2005 (being the last practicable date prior to publication of this document) from reports published by Swiss Reinsurance Company, Economic Research & Consulting which publishes analyses of insurance, reinsurance and financial markets.
- References in this document to information sourced as at 9 December 2005 (being the last practicable date prior to publication of this document) from company and public announcements and insurance reports are sourced from estimates and figures in company and public announcements and insurance reports that have been compiled by Benfield Industry Analysis and Research, a business division of Benfield, a reinsurance and risk intermediary, which publishes insurance and reinsurance industry analysis and research. Benfield Advisory, a subsidiary of Benfield, is acting as a Joint Financial Adviser to the Company.
- References in this document to the stochastic model are to a stochastic business planning model that has been constructed to generate an indicative range (or distribution) of results around the Group's business plan. The stochastic model and principal assumptions are further described in Part 7 – Illustrative Summary Consolidated Financial Projections of the Group.
- References in this document to information sourced from syndicate accounts are to figures extracted as at 9 December 2005 (being the last practicable date prior to publication of this document) by Benfield from underwriting accounts for Syndicate 488 and Syndicate 2488 and from Lloyd's total capacity figures published by Lloyd's.
- References in this document to information sourced from Lloyd's accounts have been extracted as at 9 December 2005 (being the last practicable date prior to publication of this document) by Benfield from Lloyd's global accounts and from Lloyd's total capacity figures published by Lloyd's.