LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 6.5% IN Q2 2010, 7.5% YEAR TO DATE
COMBINED RATIO OF 51.5% IN Q2 2010, 77.4% YEAR TO DATE
INTERIM DIVIDEND OF 5.0 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $7.86 AT 30 JUNE 2010

5 August 2010
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2010 and the six month period ended 30 June 2010.

Financial highlights as at 30 June 2010:

	30 June 2010	30 June 2009
Fully converted book value per share	**$7.86**	**$7.58**
Return on equity* – Q2	**6.5%**	**6.9%**
Return on equity – YTD	**7.5%**	**10.0%**
Operating return on equity – Q2	**5.7%**	**7.6%**
Operating return on equity – YTD	**6.3%**	**10.3%**
Interim dividend per common share**	**5.0¢**	**5.0¢**

* Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
** See "Dividends" below for Record Date and Dividend Payment Date.

Financial highlights:

	Three months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2010	Six months ended 30 June 2009
Highlights ($m)				
Gross premiums written	232.1	241.9	460.1	384.7
Net premiums written	218.7	238.7	422.2	337.9
Net profit after tax	84.8	106.4	93.0	147.1
Net operating profit	77.8	103.3	85.7	139.2
Share repurchases	87.4	nil	100.3	nil
Per share data				
Fully diluted earnings per share	$0.48	$0.57	$0.52	$0.80
Fully diluted earnings per share – operating	$0.44	$0.56	$0.48	$0.75
Financial ratios				
Total investment return	1.4%	0.6%	2.6%	1.7%
Annualised total investment return	5.6%	2.4%	5.3%	3.5%
Net loss ratio	18.7%	5.8%	50.9%	29.3%
Combined ratio	51.5%	35.4%	77.4%	57.9%
Accident year loss ratio	41.8%	30.7%	66.2%	29.8%

Richard Brindle, Group Chief Executive Officer, commented:

"Lancashire has performed well this quarter and, despite being one of the largest insurers of energy risks, had only modest exposure to the Deepwater Horizon drilling unit loss - one of the largest losses ever to hit the energy market. We insured against the physical loss of the platform and had only de minimus exposure to the casualty side of the loss, which we believe will prove complex and expensive to resolve. Lancashire increased book value per share by 6.5% in the second quarter; delivering a return on equity of 7.5% for the first half of the year.

Our combined ratio for the second quarter was an excellent 51.5%, demonstrating a resilient underwriting performance during an adverse claims period, and our investments returned 5.6% on an annualised basis. Lancashire once again increased book value per share, including dividends, now having done so for seventeen out of the eighteen quarters since our inception, and has generated a compound annual return of 19.4%.

Following the Deepwater Horizon loss, premium rates in the worldwide energy market have increased by between 10% and 30%. Demand for Gulf of Mexico deep water energy wind coverage has strengthened, resulting in a corresponding improvement in premium rates.

As anticipated at the beginning of the year, our property catastrophe book, particularly in Florida, came under sustained rating pressure in recent weeks. We have therefore reduced our property catastrophe exposure to windstorm in the South East and Gulf regions at both the June and July renewals. Pricing pressures also led us to decline, or reduce our participation on, several of our retrocessional accounts and we have also scaled back our direct and facultative account exposures.

Since the start of the year, there has been a reduction in Lancashire's appetite for major catastrophe risk overall. Trading conditions, particularly in property, as a whole remain uninspiring and, once again, our nimble structure has allowed us to reposition ourselves rapidly towards more interesting segments. Energy has become the bright spot, with increased demand and somewhat reduced supply. We also watch events on Capitol Hill with interest, in particular the inquiries into the Deepwater Horizon catastrophe and the implications for Lancashire on future business opportunities."

Neil McConachie, President and Group Chief Financial Officer, commented:

"As the second quarter progressed, we steadily generated capital in excess of requirements. We have a well-established practice of improving shareholder returns by actively managing capital, and we therefore took the opportunity to repurchase a significant number of Lancashire shares at prices that boost our return on equity. Whilst we deployed some capital towards compelling opportunities in the energy market, we reduced our risk levels overall compared to previous years and entered hurricane season with substantial capital headroom. The frequency and severity of industry loss events in the next few months will be important drivers of our 2011 capital needs, as will fast moving developments in the energy sector. As previously stated, should we fail to see material improvements in trading conditions overall, or should improvements be limited to certain classes rather than industry wide, we will still expect to return more capital to shareholders than we generate during 2010.

We are also pleased with the continued development of our relationships with the rating agencies, with the recent change to a positive outlook by A.M. Best and the assignment of an A minus rating with a stable outlook by Standard & Poor's."

Lancashire Renewal Price Index for major classes

Lancashire's Renewal Price Index ("RPI") is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative change in price, terms, conditions and limits and is weighted by premium volume (see "Note Regarding RPI Tool" at the end of this announcement for further guidance). The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2009:

Class	YTD 2010	Q2 2010	Q1 2010
Aviation (AV52)	95%	97%	91%
Gulf of Mexico energy	103%	106%	100%
Energy offshore worldwide	103%	107%	98%
Marine	98%	96%	100%
Direct and facultative	93%	92%	94%
Property reinsurance	96%	94%	97%
Terrorism	95%	96%	93%
Combined	**97%**	**99%**	**96%***

* Q1 combined RPI remains unchanged from previously reported at 96% after being updated for subsequent adjustments to bound premium.

Underwriting results

Gross premiums written

	Q2				YTD			
	2010 $m	2009 $m	Change $m	Change %	2010 $m	2009 $m	Change $m	Change %
Property	73.2	113.3	(40.1)	(35.4)	225.7	189.3	36.4	19.2
Energy	122.1	88.2	33.9	38.4	159.0	116.4	42.6	36.6
Marine	24.3	25.4	(1.1)	(4.3)	56.1	55.6	0.5	0.9
Aviation	12.5	15.0	(2.5)	(16.7)	19.3	23.4	(4.1)	(17.5)
Total	**232.1**	**241.9**	**(9.8)**	**(4.1)**	**460.1**	**384.7**	**75.4**	**19.6**

Gross premiums written decreased by 4.1% in the second quarter of 2010 compared to the same period in 2009. In 2010 to date, gross premiums written increased by 19.6% compared to the first six months of 2009.

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

Property gross premiums written decreased by 35.4% for the quarter compared to the same period in 2009 and increased by 19.2% in the first six months of 2010 compared to the first six months of 2009. In the second quarter, Lancashire wrote significantly less property retrocession and catastrophe reinsurance premium than in the second quarter of 2009. At the start of 2010 price reductions in these lines were minor and, in anticipation of a declining price environment later in the year and in conjunction with the Group's planned expansion of its property catastrophe reinsurance book, a tactical decision was taken to deploy more of the Group's capital at the January reinsurance renewals than in prior years. A significant amount of new business across these lines was therefore written in the first quarter, including some large multi-year contracts, with a corresponding tactical reduction in appetite in these lines in the second quarter. There were further material reductions in property catastrophe premium following the 1 July renewals which will be reflected in the financial results for the third quarter. Also included in the first quarter of 2010 was approximately $14.5 million of reinstatement premiums in connection with the Chile

Maule earthquake. Within the terrorism class, premium increased due to opportunities arising from the re-commencement of construction projects around the world plus increased participation on international terror pools. The timing of certain multi-year contract renewals was also a factor in the increase. Property direct and facultative business has continued to come under increasing pricing pressure in the second quarter and accordingly many risks were not renewed, and this was reflected in premium volumes being behind prior year for the quarter and year to date.

Energy gross premiums written increased by 38.4% for the quarter compared to the same period in 2009 and increased by 36.6% in the first six months of 2010 compared to the first six months of 2009. In the second quarter, Gulf of Mexico premium volume was considerably higher compared to the same period in the prior year. This was driven in part by the return of demand in the market including insureds seeking new layers and increased limits following the Deepwater Horizon loss. Premium written was also buoyed by a number of larger accounts being written or renewed on a multi-year basis. The Group also wrote some non-elemental Industry Loss Warranty covers in the second quarter following insurance industry losses suffered from Deepwater Horizon. $5.4 million of the premium in respect of these covers is included in the energy excess of loss class.

Marine gross premiums written decreased by 4.3% for the quarter compared to the same period in 2009 and increased by 0.9% in the first six months of 2010 compared to the first six months of 2009. Pricing and renewal rates have been broadly stable. The increase for the year is largely driven by the timing of certain multi-year contract renewals and some contract extensions, offset by lower second quarter yard renewals than the prior year as deferred shipbuilding projects have been slow to resume.

Aviation gross premiums written decreased by 16.7% for the quarter compared to the same period in 2009 and by 17.5% in the first six months of 2010 compared to the first six months of 2009. The reduction was driven primarily by a reduction in the number of flights flown and passengers travelling in the recent recessionary environment.

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Ceded premiums increased by $10.2 million, or 318.8% for the quarter and decreased by $8.9 million, or 19.0% for the six-month period to 30 June 2010 compared to the same periods in 2009. In the second quarter, the Group purchased or reinstated additional catastrophe cover on its U.S. property direct and facultative portfolio and non-elemental cover on its marine and energy book. The reduction in reinsurance spending for the year to date was helped by improved pricing compared to 2009 and by a re-structuring of the Group’s cover.

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Net premiums earned as a proportion of net premiums written were 66.1% in the second quarter of 2010 compared to 60.4% in the same period in 2009 and 74.9% in the six months to 30 June 2010, compared to 83.8% in the same period in 2009. The significant increase in premium written volumes in the first half of 2010 as compared to 2009 has resulted in a comparatively large deferral of earnings to later in 2010 and partially into 2011, giving a relatively higher proportion of earned premium in the second quarter of 2010 as compared to 2009. Significant multi-year contracts within the property catastrophe reinsurance and energy Gulf of Mexico classes of approximately $30.3 million and $33.4 million respectively also drive material deferrals of earning of written premium.

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The Group’s net loss ratio for the second quarter was 18.7% compared to 5.8% for the same period in 2009 and 50.9% for the six month period to 30 June 2010 compared to 29.3% for 2009. The increase in the ratio for the quarter was driven by the impact of the total loss of the Deepwater Horizon drilling unit. Lancashire’s net claim on Deepwater Horizon, unchanged from prior guidance, was $25.0 million. The proportion of casualty exposure within the net loss is less than $2.0 million, and this represents the full limit of Lancashire's exposure to casualty losses from the event. Excluding Deepwater, the net loss ratio for the second quarter would have been 1.4%. Both periods had a lower number of reported losses than expected, in addition to experiencing favourable development of all prior accident year reserves.

The six months to 30 June 2010 also include the impact of the February Chile Maule earthquake, with a net recorded loss of $97.5 million after reinstatement premiums at 30 June 2010, a de minimus change from the first quarter net loss estimate of $94.5 million. The Group's expected net loss range is now $80.0 - $115.0 million compared to $65.0 - $125.0 million at 31 March 2010. The narrowing of the expected loss range represents an increase in the information received from cedents, however significant uncertainty continues to exist on the eventual ultimate loss. Absent the Chile earthquake, the net loss ratio for the six months to 30 June 2010 would have been 16.2%. The net loss ratio of 29.3% for the same period in 2009 includes 14.0% from reserve strengthening in respect of claims from Hurricane Ike.

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

	Q2		**YTD**	
	2010	**2009**	**2010**	**2009**
	$m	**$m**	**$m**	**$m**
Property	17.1	13.6	28.3	29.0
Energy	15.2	17.2	16.9	(33.9)
Marine	2.5	1.2	6.1	2.5
Aviation	4.5	3.3	4.8	3.3
Total	**39.3**	**35.3**	**56.1**	**0.9**

Note: Positive numbers denote favourable development and negative numbers denote adverse development.

Net prior year reserve releases were $39.3 million and $56.1 million for the second quarter and for the six months to 30 June 2010 compared to $35.3 million and $0.9 million for the same periods in 2009. The favourable development in 2010 arises primarily from IBNR releases due to fewer than expected reported losses. In the first quarter of 2009 there was $39.8 million of adverse development on Hurricane Ike, which was subsequently reduced by $22.7 million in the second half of 2009 based on further loss adjustment reports and some negotiated settlements. The final net adverse development on Ike in 2009 was $17.1 million. To date in 2010, Ike has developed favourably by $2.1 million.

The accident year loss ratio for the quarter, including the impact of foreign exchange revaluations, was 41.8% compared to 30.7% for the same period in 2009. The year to date accident year loss ratio was 66.2% compared to 29.8% for the six months to 30 June 2009. Deepwater Horizon contributed 17.3% of the second quarter and 8.8% of the 2010 year to date net loss ratios. Excluding the impact of foreign exchange revaluations, during the first half of 2010 previous accident years' ultimate loss developed as follows:

- 2006 - favourable development of $0.9 million (2009: $3.5 million);
- 2007 - favourable development of $1.3 million (2009: $17.0 million);
- 2008 - favourable development of $26.3 million (2009: $19.6 million adverse development); and
- 2009 - favourable development of $27.6 million (2009: N/A).

The ratio of IBNR to total reserves was 35.6% compared to 43.8% at 31 December 2009.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $13.9 million for the second quarter and $27.6 million for the six months to 30 June 2010, in line with the same periods in the prior year. The low yield environment continues. The Group's invested asset base is broadly consistent with the prior periods in terms of size, with the asset mix and duration changing modestly within the overall unchanged conservative strategy.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $28.5 million for the quarter compared to $12.9 million for the second quarter of 2009, and was $53.2 million for the 2010 year to date versus $36.4 million for the same period in 2009. The increased returns in 2010 are as a result of tactically re-balancing the managed investment portfolio towards slightly higher yielding assets, in particular the allocation of assets to emerging market debt. The significant decrease in Treasury yields in June also boosted fixed income total investment returns, contributing to a net increase in unrealised gains for the quarter of $6.0 million versus a net decrease in unrealised gains of $3.4 million in the second quarter of 2009. There were no impairments recorded in the first half of 2010 compared to $0.4 million for the first half of 2009.

The Group continues to hold a conservative investment portfolio, consistent with its long-held philosophy, with a strong emphasis on preserving capital. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represents 27.7% of managed invested assets compared to 23.6% at 31 December 2009. At 30 June 2010, the managed portfolio comprised 88.3% fixed income securities, 0.1% other investments and 11.6% cash and cash equivalents compared to 92.9% fixed income securities and 7.1% cash and cash equivalents at 31 December 2009. The emerging market debt allocation is 4.5% of managed investments. The Group is not currently investing in equities, hedge funds or other alternative investments. Key investment portfolio statistics are:

	30 June 2010	**31 December 2009**	**30 June 2009**
Duration	2.4 years	2.3 years	1.9 years
Credit quality	AA	AA+	AA+
Book yield	2.8%	2.8%	2.7%
Market yield	1.9%	2.2%	2.2%

Other operating expenses

Other operating expenses, excluding the cost of equity based compensation, are broadly consistent compared to the same periods in 2009, reflecting the Group's stable operating platform. Total employment costs, excluding equity based compensation, were $14.3 million in the six months to 30 June 2010 compared to $14.5 million in the first half of 2009.

Equity based compensation was $4.7 million in the second quarter of 2010 compared to $2.6 million in the same period last year. For the six months to 30 June 2010 and 2009 the charge was $10.6 million and $5.6 million respectively. The increased 2010 expense reflects the maturing restricted share awards program plus an increase in the proportion of employees' variable compensation provided as deferred shares compared to prior years. The restricted share program began in 2008.

Capital

At 30 June 2010, total capital was $1.487 billion, comprising shareholders' equity of $1.361 billion and $126.3 million of long-term debt. Leverage was 8.5%. Total capital at 31 December 2009 was $1.510 billion.

Repurchase program

At the Annual General Meeting held on 4 May 2010 the Group's Shareholders approved a renewal of the share repurchase program (the "Repurchase Program") authorising the repurchase of a maximum of 18,250,306 shares, with such authority to expire on the conclusion of the 2011 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Program was passed.

The Group continues to repurchase its own shares by way of on and off market purchases utilising the current Repurchase Program, which had 9,875,822 shares remaining to be purchased at 30 July 2010 (approximately $82.9 million at the 30 July 2010 share price). $87.4 million of shares were repurchased during the second quarter of 2010 and $100.3 million in the six months to 30 June 2010 compared to $nil in the same periods in the prior year.

As previously announced during the quarter, the Group agreed to purchase a total of $37.0 million of shares from Crestview Partners L.P., Crestview Offshore Holdings (Cayman) L.P., Crestview Holdings (TE) L.P., Crestview Partners ERISA L.P., and Crestview Partners (PF) L.P. (collectively, "Crestview") for cancellation. Also as announced on 1 July 2010, an additional $3.7 million of shares were purchased from Crestview and cancelled. All of these shares were repurchased in off-market transactions at a discount to the then-prevailing market price.

Dividends

The Lancashire Board has declared an interim dividend of 5.0 cents per common share (approximately 3.15 pence per common share at the current exchange rate), which results in an aggregate payment of approximately $7.6 million (the "Interim Dividend"). The Interim Dividend will be paid in Pounds Sterling on 13 October 2010 (the "Interim Dividend Payment Date") to shareholders of record on 3 September 2010 (the "Record Date") using the GBP£/US$ spot market exchange rate at the close of business in London on the Record Date.

In accordance with the terms of Lancashire's warrants, a payment equivalent to the Interim Dividend to shareholders will also be paid in Pounds Sterling on 13 October 2010 to those warrant holders listed on the Company's Warrant Register as of the Record Date. The warrant payment will be made in respect of the number of common shares for which each Warrant is exercisable as at the Record Date (approximately $1.8 million in aggregate).

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Outlook

Lancashire aims to achieve a cross-cycle return of 13% including dividends above a risk free rate. This remains unchanged from previous guidance.

Further detail of our 2010 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Prior to the end of August 2010, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2010 via our website www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00 pm UK time / 8:00 am EST on Thursday 5 August 2010. The call will be hosted by Richard Brindle, Chief Executive Officer, Neil McConachie, President and Chief Financial Officer and Charles Mathias, Group Underwriting Operations Director.

The call can be accessed by dialing +44 (0) 20 7138 0845 / +1 212 444 0895 with the passcode 4924913. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available for two weeks until Thursday, 19 August 2010. The dial in number for the replay facility is +44 (0) 20 7111 1244 / + 1 347 366 9565 with passcode 4924913#. The replay facility can also be accessed at www.lancashiregroup.com

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Consolidated statement of comprehensive income
(Unaudited)

	Quarter 2 2010 $m	Quarter 2 2009 $m	YTD 2010 $m	YTD 2009 $m
Gross premiums written	232.1	241.9	460.1	384.7
Outwards reinsurance premiums	(13.4)	(3.2)	(37.9)	(46.8)
Net premiums written	218.7	238.7	422.2	337.9
Change in unearned premiums	(72.5)	(83.9)	(120.4)	(70.5)
Change in unearned premiums on premiums ceded	(1.6)	(10.7)	14.6	15.9
Net premiums earned	144.6	144.1	316.4	283.3
Net investment income	13.9	14.0	27.6	27.5
Net other investment income	0.1	-	-	0.3
Net realised gains (losses) and impairments	8.5	2.3	12.8	10.3
Net foreign exchange (losses) gains	(1.9)	2.3	(3.6)	0.7
Total net revenue	165.2	162.7	353.2	322.1
Insurance losses and loss adjustment expenses	59.1	6.5	192.6	95.6
Insurance losses and loss adjustment expenses recoverable	(32.1)	1.9	(31.7)	(12.6)
Net insurance acquisition expenses	27.7	27.6	54.3	53.6
Equity based compensation	4.7	2.6	10.6	5.6
Other operating expenses	19.6	15.0	29.4	27.4
Total expenses	79.0	53.6	255.2	169.6
Results of operating activities	86.2	109.1	98.0	152.5
Financing costs	1.7	1.9	3.4	4.3
Profit before tax	84.5	107.2	94.6	148.2
Tax (credit) charge	(0.3)	0.8	1.6	1.1
Profit for the period attributable to equity shareholders	84.8	106.4	93.0	147.1
Net change in unrealised gains (losses) on investments	6.3	(3.5)	13.3	(1.8)
Tax (expense) benefit on net change in unrealised gains (losses) on investments	(0.3)	0.1	(0.5)	0.1
Other comprehensive income (loss)	6.0	(3.4)	12.8	(1.7)
Total comprehensive income attributable to equity shareholders	90.8	103.0	105.8	145.4
Net loss ratio	18.7%	5.8%	50.9%	29.3%
Net acquisition cost ratio	19.2%	19.2%	17.2%	18.9%
Administrative expense ratio	13.6%	10.4%	9.3%	9.7%
Combined ratio	51.5%	35.4%	77.4%	57.9%
Basic earnings per share	$0.53	$0.62	$0.56	$0.85
Diluted earnings per share	$0.48	$0.57	$0.52	$0.80
Change in fully converted book value per share	6.5%	6.9%	7.5%	10.0%

Consolidated balance sheet

	Unaudited 30 Jun 2010 $m	Unaudited 30 Jun 2009 $m	Audited 31 Dec 2009 $m
Assets			
Cash and cash equivalents	268.7	343.1	440.0
Accrued interest receivable	12.9	9.2	12.0
Investments – fixed income securities, available for sale	1,836.9	1,813.1	1,892.5
– other investments	1.1	-	-
Reinsurance assets			
- Unearned premiums on premiums ceded	20.2	25.9	5.6
- Reinsurance recoveries	47.8	49.2	35.8
- Other receivables	2.0	2.2	4.3
Deferred acquisition costs	74.8	68.9	52.9
Other receivables	14.0	26.3	4.3
Inwards premiums receivable from insureds and cedants	285.4	255.4	178.2
Deferred tax asset	3.7	2.9	3.3
Property, plant and equipment	8.0	1.0	8.2
Total assets	**2,575.5**	**2,597.2**	**2,637.1**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	583.7	543.6	488.9
- Unearned premiums	438.0	410.1	317.6
- Other payables	19.6	16.9	15.8
Amounts payable to reinsurers	12.7	13.3	4.2
Deferred acquisition costs ceded	2.8	1.5	2.7
Other payables	26.8	55.3	291.4
Corporation tax payable	2.3	2.3	2.4
Interest rate swap	2.2	4.4	3.6
Accrued interest payable	0.2	0.3	0.2
Long-term debt	126.3	130.7	131.4
Total liabilities	**1,214.6**	**1,178.4**	**1,258.2**
Shareholders' equity			
Share capital	86.7	91.2	91.2
Own shares	(117.1)	(59.0)	(76.4)
Share premium	2.4	2.4	2.4
Contributed surplus	699.1	757.3	757.0
Accumulated other comprehensive income	43.2	25.9	30.4
Other reserves	65.4	56.8	65.3
Retained earnings	581.2	544.2	509.0
Total shareholders' equity attributable to equity shareholders	**1,360.9**	**1,418.8**	**1,378.9**
Total liabilities and shareholders' equity	**2,575.5**	**2,597.2**	**2,637.1**

Statement of consolidated cashflows

	Unaudited Six months 2010	Unaudited Six months 2009	Audited Twelve months 2009
	$m	$m	$m
Cash flows from operating activities			
Profit before tax	94.6	148.2	388.5
Tax paid	(2.7)	(0.3)	(2.7)
Depreciation	1.3	0.5	0.8
Interest expense	2.7	3.5	6.4
Interest and dividend income	(34.2)	(31.9)	(64.7)
Accretion of fixed income securities	4.7	2.9	5.3
Equity based compensation	10.6	5.6	16.4
Foreign exchange losses (gains)	2.4	(1.6)	(2.3)
Net other investment income	-	(0.3)	(0.3)
Net realised (gains) losses and impairments	(12.8)	(10.3)	(23.8)
Unrealised (gain) loss on interest rate swaps	(1.4)	(0.5)	(1.3)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	77.2	(1.0)	(32.6)
- Other assets and liabilities	(14.1)	(8.6)	(11.3)
Net cash flows from operating activities	**128.3**	**106.2**	**278.4**
Cash flows used in investing activities			
Interest and dividends received	33.3	32.8	62.8
Net purchase of property, plant and equipment	(1.3)	-	(7.6)
Purchase of fixed income securities	(1,368.5)	(1,488.5)	(2,711.6)
Proceeds on maturity and disposal of fixed income securities	1,443.5	1,283.2	2,440.8
Proceeds on disposal of equity securities	-	4.8	4.8
Net proceeds from (purchases of) other investments	0.6	(1.6)	0.1
Net cash flows from (used in) investing activities	**107.6**	**(169.3)**	**(210.7)**
Cash flows used in financing activities			
Interest paid	(2.7)	(3.6)	(6.4)
Dividends paid	(283.8)	-	(10.5)
Shares repurchased	(112.1)	(3.9)	(24.9)
Net cash flows used in financing activities	**(398.6)**	**(7.5)**	**(41.8)**
Net (decrease) increase in cash and cash equivalents	**(162.7)**	**(70.6)**	**25.9**
Cash and cash equivalents at beginning of period	440.0	413.6	413.6
Effect of exchange rate fluctuations on cash and cash equivalents	(8.6)	0.1	0.5
Cash and cash equivalents at end of period	**268.7**	**343.1**	**440.0**

About Lancashire

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. Its insurance subsidiaries carry the Lancashire group rating of A minus (Excellent) from A.M. Best with a positive outlook and an A minus financial strength rating from Standard & Poor's ("S&P") with a stable outlook. Lancashire has capital in excess of $1 billion and its Common Shares trade on the main market of the London Stock Exchange under the ticker symbol LRE. Lancashire is headquartered at Power House, 7 Par-la-Ville Road, Hamilton HM 11Bermuda. The mailing address is Lancashire Holdings Limited, P.O. Box HM 2358, Hamilton HM HX, Bermuda. For more information on Lancashire, visit the Company's website at www.lancashiregroup.com

NOTE REGARDING RPI TOOL

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

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

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN OUR UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; LOSS OF KEY PERSONNEL; A DECLINE IN OUR OPERATING SUBSIDIARIES' RATING WITH A.M. BEST COMPANY AND/OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT CREATED BY THE FINANCIAL MARKETS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; AND THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS. ANY ESTIMATES RELATING TO LOSS EVENTS INVOLVE THE EXERCISE OF CONSIDERABLE JUDGEMENT AND REFLECT A COMBINATION OF GROUND-UP EVALUATIONS, INFORMATION AVAILABLE TO DATE FROM BROKERS AND INSUREDS, MARKET INTELLIGENCE, INITIAL AND/OR TENTATIVE LOSS REPORTS

AND OTHER SOURCES. JUDGEMENTS IN RELATION TO LOSS ARISING FROM NATURAL CATASTROPHE AND MAN MADE EVENTS INVOLVE COMPLEX FACTORS POTENTIALLY CONTRIBUTING TO THESE TYPES OF LOSS, AND WE CAUTION AS TO THE PRELIMINARY NATURE OF THE INFORMATION USED TO PREPARE ANY SUCH ESTIMATES.

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