LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 2.4% IN Q2 2014, 6.4% YEAR TO DATE
COMBINED RATIO OF 74.6% IN Q2 2014, 70.6% YEAR TO DATE
INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $7.67 AS AT 30 JUNE 2014

24 July 2014
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2014 and the six month period ended 30 June 2014.

Financial highlights

	As at 30 June 2014	**As at 30 June 2013**
Fully converted book value per share	**$7.67**	**$7.19**
Return on equity* – Q2	**2.4%**	**2.0%**
Return on equity* – YTD	**6.4%**	**7.0%**
Operating return on average equity – Q2	**2.9%**	**4.3%**
Operating return on average equity – YTD	**7.0%**	**8.5%**
Interim dividend per common share**	**$0.05**	**$0.05**

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

Financial highlights:

	Three months ended		**Six months ended**	
	30 June 2014	**30 June 2013**	**30 June 2014**	**30 June 2013**
Highlights ($m)				
Gross premiums written	318.4	209.0	635.1	423.9
Net premiums written	290.5	189.1	494.9	307.7
Profit before tax	41.5	58.3	98.9	137.2
Profit after tax***	44.8	56.2	104.9	134.1
Comprehensive income***	51.6	31.2	115.1	97.5
Net operating profit***	43.4	54.2	106.3	121.5
Per share data				
Diluted earnings per share	$0.23	$0.30	$0.53	$0.74
Diluted earnings per share – operating	$0.22	$0.29	$0.54	$0.67
Financial ratios				
Total investment return	0.6%	(0.6%)	0.9%	(0.5%)
Net loss ratio	34.9%	30.2%	34.5%	23.5%
Combined ratio	74.6%	66.9%	70.6%	58.8%
Accident year loss ratio	39.4%	22.6%	34.0%	26.2%

*** These amounts are attributable to Lancashire and exclude non-controlling interests.

Alex Maloney, Group Chief Executive Officer, commented:

"There can be no doubt that the additional capital in our industry, not just new capital but also the undistributed retained earnings of many of our peers, is driving competition on pricing, terms and conditions. Most of this competition is still responsible and leaves acceptable underwriting margins and volumes for those underwriters like Lancashire, Cathedral and Kinesis who have the ability, experience and track-record that clients and brokers rely on to lead and structure policies. However there are areas of the market where there are instances of indiscipline, and Lancashire is always prepared to let underpriced business go. There have been some industry loss developments from prior years and events, but the second quarter itself has been relatively quiet in terms of major loss events, so there is no catalyst for pricing to move upward.

Lancashire's strategy since day one has always been to write the most exposure in a hard market and the least in a soft one. There are now abundant reinsurance and retrocession opportunities that allow us to maintain our core insurance and reinsurance portfolios, whilst significantly reducing net exposures and enhancing risk adjusted returns. From our peak exposures in April 2012, when losses had driven substantial market hardening, we have reduced exposures across the board. We will stick to our strategy in the knowledge that when an event comes, we are well prepared through all three of our platforms to take advantage of subsequent opportunity.

There is some discussion about whether pricing has reached a floor, and there have been signs of over-ambitiously priced programmes being rejected. But on the whole we think there is still pressure on pricing and, with business more scarce in the second half of the year, we wouldn't be surprised to see some aggressive renewal targets. But we can mitigate the effects of up-front pricing impacts with very substantial savings on our own reinsurance and retrocession purchases, and for LICL and LUK we've also bought substantially more limit this year for both risk and cat covers. Cathedral has always been a buyer of extensive reinsurance but has also managed to improve retentions, breadth of cover and costs.

The continuing co-operation between the Group entities at an operating level is very pleasing with strong involvement from Cathedral and Kinesis at the Risk and Return and Executive Committees in product line reviews and in cross-selling and marketing. In particular we have been delighted with the support from brokers and clients for our new energy and terrorism lines in Syndicate 3010; for the energy line in particular this has exceeded expectations.

The furtherance of our market-beating loss and combined ratios is evidence that the Lancashire strategy and team continue to deliver. We are dedicated to continuing to out-perform across the cycle, and believe we are well positioned to do this."

Elaine Whelan, Group Chief Financial Officer, commented:

"The Group produced an RoE of 2.4% for the quarter with a combined ratio of 74.6%. Richard Brindle's retirement package and warrant exercises reduced RoE for the quarter by 1.3%. Excluding that impact, our RoE would have been 3.7% for the quarter. RoE for the Lancashire Companies was 1.8% with Cathedral adding 0.7%. Acquisition adjustments were insignificant.

Despite some mixed news on prior accident year claims, there were no major catastrophe losses in the quarter and we produced a respectable loss ratio of 34.9%. Our investment portfolio delivered a reasonable return of 0.6%.

With the continued pressure on the trading environment, we expect to manage our risk levels accordingly. As ever, the balance of capital we hold will match the underwriting opportunities we foresee. If there are no major events, and no change in the market, it remains likely that we will return the majority, if not all, of our earnings to our shareholders later in the year."

Lancashire Companies' Renewal Price Index for major classes

The Lancashire Companies' Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects the Lancashire Companies' assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business and only covers business written by the Lancashire Companies to offer a consistent basis for analysis and therefore does not include Cathedral's Lloyd's business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2013:

Class	YTD 2014	Q2 2014	Q1 2014
Aviation (AV52)	89%	90%	87%
Gulf of Mexico energy	92%	91%	97%
Energy offshore worldwide	93%	91%	95%
Marine	104%	102%	105%
Property retrocession and reinsurance	87%	83%	89%
Terrorism	93%	94%	93%
Combined	**93%**	**92%**	**95%**

Underwriting results

Gross premiums written

	Q2				YTD			
	2014 $m	2013 $m	Change $m	Change %	2014 $m	2013 $m	Change $m	Change %
Property	69.9	86.8	(16.9)	(19.5)	187.4	218.8	(31.4)	(14.4)
Energy	127.3	97.6	29.7	30.4	177.2	143.1	34.1	23.8
Marine	21.9	12.7	9.2	72.4	48.6	42.3	6.3	14.9
Aviation	17.3	11.9	5.4	45.4	31.7	19.7	12.0	60.9
Lloyd's	82.0	-	82.0	-	190.2	-	190.2	-
Total	**318.4**	**209.0**	**109.4**	**52.3**	**635.1**	**423.9**	**211.2**	**49.8**

Gross premiums written increased by 52.3% in the second quarter of 2014 compared to the same period in 2013. In 2014 to date, gross premiums written increased by 49.8% compared to the first six months of 2013. The increase in premiums is derived primarily from the new Lloyd's segment following the acquisition of Cathedral in the fourth quarter of 2013. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 19.5% for the second quarter of 2014 compared to the same period in 2013 and decreased by 14.4% in the first six months of 2014 compared to the first six months of 2013. The decrease in the quarter is due to two main factors:

- Sovereign and political risk binding was substantially lower. This is the nature of the account where only a small proportion of the business is renewable as most of it is specific-project related.
- We reduced exposures and premiums in some areas of the property catastrophe excess of loss book, New Zealand being one such example, and the retrocession portfolio as pricing came under further pressure during the second quarter.

For the year to date the decrease is driven primarily by reductions in the property retrocession book at the January 1 2014 renewals, in addition to the second quarter impacts mentioned above, partially offset by the growth of the core property catastrophe excess of loss portfolio in the first quarter.

Energy gross premiums written increased by 30.4% for the second quarter of 2014 compared to the same period in 2013 and increased by 23.8% in the first six months of 2014 compared to the first six months of 2013. The increase for the quarter and year to date is driven primarily by the Gulf of Mexico offshore energy book where a number of both new and renewing deals were written on a multi-year basis. These increases are somewhat offset by decreases in the worldwide offshore energy class where non-annual contracts written in the second quarter of 2013 are not due for renewal yet. Volumes across other energy lines are fairly flat on both a quarter and year to date basis.

Marine gross premiums written increased by 72.4% for the second quarter of 2014 compared to the same period in 2013 and increased by 14.9% in the first six months of 2014 compared to the first six months of 2013. The increase for the quarter and year to date is due to non-annual contract renewals in the marine hull subclass in the second quarter of 2014 and increased premiums on loss affected accounts.

Aviation gross premiums written increased by 45.4% for the second quarter of 2014 compared to the same period in 2013 and increased by 60.9% in the first six months of 2014 compared to the first six months of 2013. The increase for both the second quarter and first six months of 2014 compared to the same periods in 2013 is mainly due to some new satellite business, plus additional satellite launches on contracts written in previous years. As noted in previous quarters, satellite launch, like sovereign and political risks, is not a renewable portfolio, and the timing of income can be unpredictable. The small increase in AV52 premiums written in the first six months of 2014 compared to the first six months of 2013 is driven by adjustments to prior year contracts. Pricing and renewal rates remain under pressure in this class.

The second quarter of 2014 reflects the second full quarter of gross premiums written attributable to the Lloyd's segment since the Cathedral acquisition in the fourth quarter of 2013. The Lloyd's segment gross premiums written in the second quarter were $82.0 million, $6.4 million or 8.5% higher than the corresponding quarter of 2013 (prior to the acquisition by Lancashire). The increase is largely due to the new energy and terrorism classes of business being written by Syndicate 3010, which is partly offset by reductions in the other classes of business.

****

Ceded reinsurance premiums increased by $8.0 million, or 40.2%, for the quarter and increased by $24.0 million, or 20.7%, for the six month period to 30 June 2014, in each case compared to the same periods in 2013. The increase in the second quarter of 2014 compared to the second quarter of 2013 is due to the new Lloyd's segment. Other movements in the remainder of the book were largely offsetting. In the six month period to 30 June 2013, $47.7 million of premiums were ceded to the Accordion sidecar. The quota share to the sidecar was commuted in the first quarter of 2014 and no further premiums have been ceded to the vehicle this year. This reduction was offset by $49.5 million of ceded premiums in relation to the Lloyd's segment. Lancashire also took advantage of lower reinsurance rates to purchase some new non-marine retrocession aggregate cover and to buy substantial additional limits for the marine, energy, AV52 and terrorism programmes.

****

Net premiums earned as a proportion of net premiums written were 64.2% in the second quarter of 2014 compared to 67.0% for the same period in 2013 and 73.0% in the six months to 30 June 2014, compared to 84.7% in the same period in 2013. The decreased percentage for both the quarter and year to date compared to the same periods in 2013 reflects the impact of increased multi-year premiums written in the property catastrophe excess of loss and energy Gulf of Mexico offshore energy classes in 2014.

****

The Group's net loss ratio for the second quarter of 2014 was 34.9% compared to 30.2% for the same period in 2013 and 34.5% for the six month period to 30 June 2014 compared to 23.5% for the same period in 2013. There were no significant losses in the second quarter or the first six months of 2014 and attritional losses reported were also relatively low. For the second quarter and first six months of 2013 attritional losses were exceptionally low. The first quarter of 2013 also included the benefit of the settlement reached for our North East Industry Loss Warranty ("ILW") in relation to Sandy.

Prior year favourable development for the second quarter of 2014 was $8.2 million, compared to adverse development of $9.6 million for the second quarter of 2013. The favourable development in the second quarter of 2014 is driven by releases across a number of mid-sized claims and IBNR releases, offset somewhat by adverse development on prior accident year mid-sized marine and energy claims. Adverse development in the second quarter of 2013 was largely due to deterioration of the Costa Concordia loss of $37.7 million, after reinsurance and reinstatement premiums. Adverse development was $1.9 million for the six months to 30 June 2014, compared to favourable development of $7.3 million for the same period in 2013, which included the ILW settlement mentioned above.

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

	Q2 2014		**YTD 2014**	
	Losses $m	**Loss Ratio %**	**Losses $m**	**Loss Ratio %**
At 30 June	65.0	34.9	124.7	34.5
Absent prior year development	73.2	39.3	122.8	34.0
Adjusted losses and ratio	**73.2**	**39.3**	**122.8**	**34.0**

Note: Adjusted loss ratio excludes prior year development.

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

Note: Adjusted loss ratio excludes large losses and prior year development.

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

	Q2		**YTD**	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
Property	16.0	(0.7)	17.3	12.8
Energy	2.0	19.6	(7.8)	21.5
Marine	(16.0)	(28.6)	(15.2)	(25.6)
Aviation	(0.3)	0.1	-	(1.4)
Lloyd's	6.5	-	3.8	-
Total	**8.2**	**(9.6)**	**(1.9)**	**7.3**

Note: Positive numbers denote favourable development.

The accident year loss ratio for the second quarter of 2014, including the impact of foreign exchange revaluations, was 39.4% compared to 22.6% for the same period in 2013. The year to date accident year loss ratio was 34.0% compared to 26.2% for the six months to 30 June 2013. The 2014 accident year loss ratio for the quarter and six months ended 30 June 2014 did not include any significant large losses. The corresponding periods of 2013 also included low levels of current accident year losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2014 and 2013:

	Six months ended 30 June 2014 $m	**Six months ended 30 June 2013 $m**
2006 accident year and prior	0.2	(1.4)
2007 accident year	(0.3)	(0.8)
2008 accident year	2.2	(1.5)
2009 accident year	2.5	1.4
2010 accident year	4.0	0.1
2011 accident year	(3.6)	7.1
2012 accident year	1.3	2.4
2013 accident year	(8.2)	-
Total	**(1.9)**	**7.3**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 29.4% at 30 June 2014 compared to 33.7% at 30 June 2013.

Investments

Net investment income was $7.6 million for the second quarter of 2014, an increase of 16.9% from the second quarter of 2013 mainly due to the increased size of the investment portfolio resulting from the acquisition of Cathedral. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $12.2 million for the second quarter of 2014 compared to a loss of $9.9 million for the second quarter of 2013. The decline in treasury yields during the second quarter of 2014, combined with the narrowing of credit spreads, led to positive returns in the Group's fixed income portfolio. In the corresponding period of 2013, investment returns were negatively impacted by widening spreads, particularly emerging market debt credit spreads, as well as a spike in treasury yields.

The corporate bond allocation represents 28.5% of managed invested assets at 30 June 2014 compared to 28.4% at 30 June 2013. At 30 June 2014 the Group's allocation to bank loans represents 5.8% of the portfolio compared to 3.7% at 30 June 2013. The allocation to bank loans, our tail risk hedge, plus our new allocation to a diversified portfolio of low volatility hedge funds is part of our interest rate risk management strategy to protect the investment portfolio from a significant increase in treasury yields.

The managed portfolio was as follows:

	As at 30 June 2014	**As at 31 December 2013**	**As at 30 June 2013**
Fixed income securities	84.1%	84.4%	80.9%
Cash and cash equivalents	11.4%	14.7%	18.7%
Equity securities	0.7%	0.7%	-
Hedge funds	3.7%	-	-
Other investments	0.1%	0.2%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics are:

	As at 30 June 2014	As at 31 December 2013	As at 30 June 2013
Duration	1.3 years	1.0 year	1.3 years
Credit quality	AA-	AA-	AA-
Book yield	1.3%	1.4%	1.5%
Market yield	1.1%	1.2%	1.4%

Lancashire Capital Management

The $0.9 million and $2.5 million share of profit of associates for the second quarter and first six months of 2014 respectively, mostly reflects Lancashire's 10% equity interest in the Kinesis vehicle. The share of profit of associates was $3.3 million for the second quarter of 2013 and $6.2 million for the six months to 30 June 2013 and related to the Accordion and Saltire vehicles.

Other income recorded in the second quarter reflects the underwriting fee of $0.8 million that Kinesis Capital Management earned for providing underwriting services to the Kinesis vehicle, and $3.1 million of profit commission and managing agent's fees relating to the Lloyds segment. For the six months to 30 June 2014 other income includes $1.4 million for underwriting services to the Kinesis vehicle, $3.5 million of profit commission and managing agency fees relating to the Lloyd's segment and $3.0 million of final profit commission from the Saltire vehicle. During the first quarter of 2014 final profit commission of $6.7 million was also received from the Accordion vehicle. This was recorded in net insurance acquisition costs.

CEO Retirement

Lancashire's founding CEO retired during the second quarter. In recognition of his contribution to the Group, and in line with his contractual entitlements, he received a retirement package approved by the Board. This included salary and benefits of $1.8 million, included in other operating expenses, and an accelerated vesting and cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that had accrued on the RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within shareholders' equity. The accelerated vesting gave rise to an equity based compensation charge of $3.5 million.

Other operating expenses

Operating expenses consist of the following items:

	Q2		YTD	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
Employee salaries and benefits	12.5	8.2	22.5	17.3
Payroll taxes and national insurance on equity compensation	(1.8)	0.7	(4.2)	1.5
Other operating expenses	13.3	8.4	26.2	15.5
Total Lancashire, excluding Lloyd's segment	**24.0**	**17.3**	**44.5**	**34.3**
Lloyd's segment	6.6	-	13.1	-
Total	**30.6**	**17.3**	**57.6**	**34.3**

Employee remuneration costs were higher in the second quarter and first six months of 2014 compared to the same periods in the prior year due to the retirement of the CEO noted above and a slight increase in headcount. The second quarter of 2014 and the six months to June 2014 included reversals of employee national insurance accruals in relation to equity compensation exercises driven by both the timing of exercises and fluctuations in the share price. Other operating expenses included $2.5 million for the second quarter of 2014 and $6.9 million for the six months to June 2014 relating to the amortisation of intangible assets arising on the acquisition of Cathedral in the fourth quarter of 2013.

The Lloyd's segment in the second quarter includes $4.1 million of employee remuneration costs and $2.5 million of other operating expenses. The employee remuneration costs and other operating expenses for the corresponding quarter of 2013 (prior to the acquisition by Lancashire) were $5.5 million and $2.5 million, respectively. For the six months to June 2014 the Lloyd's segment includes $8.0 million of employee remuneration costs and $5.1 million of other operating expenses compared to $13.1 million and $5.3 million, respectively, for the same period in 2013 (prior to the acquisition by Lancashire). 2013 employee remuneration costs were higher due to profit related pay provisions which are accrued on a results basis.

Equity based compensation was $8.3 million in the second quarter of 2014 compared to $3.7 million in the same period last year. The variance is driven by the accelerated vesting of RSS awards in respect of the departing CEO and the inclusion of the Lloyd's segment in the Group's RSS scheme. For the six months to 30 June 2014 and 2013 the charge was $10.7 million and $7.2 million, respectively.

Capital

At 30 June 2014, total capital available to Lancashire was $1.836 billion, comprising shareholders' equity of $1.504 billion and $332 million of long-term debt. Tangible capital was $1.678 billion. Leverage was 18.1% on total capital and 19.8% on total tangible capital. Total capital and total tangible capital at 30 June 2013 was $1.525 billion.

Warrants

The outstanding warrants to purchase the Company's common shares were issued on 16 December 2005 and expire on 16 December 2015. We saw a higher volume of warrant exercises during the second quarter, relative to prior periods, and would expect this trend to continue until expiry. Warrant exercises during the quarter were as follows:

	Number of Management Team Performance warrants	Number of Management Team Ordinary warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants	Total Number of warrants
Outstanding and exercisable as at 31 March 2014	859,445	6,184,399	18,751,116	648,143	2,350,000	28,793,103
Exercised during the period	(741,965)	(5,625,217)	(657,833)	–	–	(7,025,015)
Outstanding and exercisable as at 30 June 2014	117,480	559,182	18,093,283	648,143	2,350,000	**21,768,088**

Dividends

During the first quarter of 2014, the Lancashire Board of Directors declared a final dividend in respect of 2013 of $0.10 (£0.06) per common share and an additional special dividend for 2013 of $0.20 (£0.12 pence) per common share. The dividends, totaling $63.2 million, were paid on 16 April 2014 to shareholders of record on 21 March 2014.

Lancashire announces that its Board has declared an interim dividend for 2014 of $0.05 per common share (approximately £0.03 per common share at the current exchange rate), which will result in an aggregate payment of approximately $9.5 million. The dividend will be paid in Pounds Sterling on 24 September 2014 (the "Dividend Payment Date") to shareholders of record on 29 August 2014 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date. Shareholders interested in participating in the dividend reinvestment plan ("DRIP") or other services including international payment, are encouraged to contact the Group registrars, Capita Registrars for more details at: http://www.capitaregistrars.com/shareholder.aspx

In addition to the interim dividend payment to shareholders, a dividend equivalent payment of approximately $1.0 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

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

Note: In this release the term "Cathedral" means Cathedral Capital Limited (a wholly owned subsidiary of Lancashire) and its subsidiaries and the term "Lancashire Companies" means the subsidiaries of Lancashire excluding Cathedral.

Financial information

Further details of our 2014 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Prior to the end of July 2014, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2014 via our website at www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00am EDT on Thursday, 24 July 2014. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44 (0) 203 139 4830 / + 1 718 873 9077 (Toll Free UK +44 (0) 808 237 0030 / Toll Free US + 1 866 928 7517) all with the confirmation code 86974526#. 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 until Friday, 22 August 2014. The dial in number for the replay facility is Toll +44 (0) 203 426 2807 or Toll Free UK +44 (0) 808 237 0026 with passcode 648818#. The replay facility will also be accessible at www.lancashiregroup.com

For further information, please contact:

Lancashire Holdings Limited	
Christopher Head	+44 20 7264 4145 chris.head@lancashiregroup.com
Jonny Creagh-Coen	+44 20 7264 4066 jcc@lancashiregroup.com
Haggie Partners	+44 20 7562 4444
Peter Rigby	(Peter Rigby mobile +44 7803851426)

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

About Lancashire

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

	Financial Strength Rating (1)	**Financial Strength Outlook (1)**	**Long Term Issuer Rating (2)**
A.M. Best	A (Excellent)	Stable	bbb
Standard & Poor's	A-	Stable	BBB
Moody's	A3	Stable	Baa2

(1) Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

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

Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); Standard & Poor's: A+ (Strong); and Fitch: AA- (Very Strong).

Lancashire has capital in excess of $1.5 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

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

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

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

Kinesis Capital Management Limited is regulated by the Bermuda Monetary Authority in Bermuda.

For more information on Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), visit Cathedral's website at www.cathedralcapital.com

Cathedral Underwriting Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

NOTE REGARDING RPI METHODOLOGY

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "PROJECTS", "FORECASTS", "GUIDANCE", "INTENDS", "EXPECTS", "ESTIMATES", "PREDICTS", "MAY", "CAN", "WILL", "SEEKS", "SHOULD", OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP'S FINANCIAL POSITION, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S INSURANCE BUSINESS) ARE FORWARD LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS MAY 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 GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP; THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN ITS TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; THE EFFECTIVENESS OF ITS LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF LANCASHIRE'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE NEW UK CFC REGIME; AND ANY CHANGE IN THE UK GOVERNMENT OR UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME .

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

Consolidated statement of comprehensive income

(Unaudited)

	Quarter 2 2014 $m	Quarter 2 2013 $m	YTD 2014 $m	YTD 2013 $m
Gross premiums written	318.4	209.0	635.1	423.9
Outwards reinsurance premiums	(27.9)	(19.9)	(140.2)	(116.2)
Net premiums written	**290.5**	**189.1**	**494.9**	**307.7**
Change in unearned premiums	(97.6)	(49.4)	(200.8)	(96.8)
Change in unearned premiums on premiums ceded	(6.5)	(13.0)	67.2	49.6
Net premiums earned	**186.4**	**126.7**	**361.3**	**260.5**
Net investment income	7.6	6.5	14.7	12.6
Net other investment (losses) income	(1.2)	4.4	(0.9)	3.8
Net realised (losses) gains and impairments	(1.0)	4.2	(3.9)	12.1
Share of profit of associates	0.9	3.3	2.5	6.2
Other income	3.9	0.3	7.9	0.6
Net foreign exchange (losses) gains	(0.8)	(0.1)	(3.3)	3.6
Total net revenue	**195.8**	**145.3**	**378.3**	**299.4**
Insurance losses and loss adjustment expenses	57.8	66.5	125.8	105.7
Insurance losses and loss adjustment expenses recoverable	7.2	(28.2)	(1.1)	(44.4)
Net insurance acquisition expenses	43.4	29.2	73.0	57.7
Other operating expenses	30.6	17.3	57.6	34.3
Equity based compensation	8.3	3.7	10.7	7.2
Total expenses	**147.3**	**88.5**	**266.0**	**160.5**
Results of operating activities	**48.5**	**56.8**	**112.3**	**138.9**
Financing costs	7.0	(1.5)	13.4	1.7
Profit before tax	**41.5**	**58.3**	**98.9**	**137.2**
Tax (credit) charge	(3.2)	2.1	(5.8)	3.1
Profit after tax	**44.7**	**56.2**	**104.7**	**134.1**
Non-controlling interest	0.1	-	0.2	-
Profit after tax attributable to Lancashire	**44.8**	**56.2**	**104.9**	**134.1**
Net change in unrealised gains/losses on investments	6.9	(25.4)	10.3	(37.4)
Tax recovery on net change in unrealised gains/losses on investments	(0.1)	0.4	(0.1)	0.8
Other comprehensive income (loss)	**6.8**	**(25.0)**	**10.2**	**(36.6)**
Total comprehensive income attributable to equity shareholders	**51.6**	**31.2**	**115.1**	**97.5**
Net loss ratio	34.9%	30.2%	34.5%	23.5%
Net acquisition cost ratio	23.3%	23.0%	20.2%	22.1%
Administrative expense ratio	16.4%	13.7%	15.9%	13.2%
Combined ratio	74.6%	66.9%	70.6%	58.8%
Basic earnings per share	$0.24	$0.34	$0.57	$0.84
Diluted earnings per share	$0.23	$0.30	$0.53	$0.74
Change in fully converted book value per share	2.4%	2.0%	6.4%	7.0%

Consolidated balance sheet

(Unaudited)	Unaudited 30 Jun 2014 $m	Unaudited 30 Jun 2013 $m	Unaudited 31 Dec 2013 $m
Assets			
Cash and cash equivalents	345.4	413.6	403.0
Accrued interest receivable	8.5	7.5	8.9
Investments	2,155.7	1,623.0	2,016.0
Reinsurance assets			
- Unearned premiums on premiums ceded	82.1	61.1	14.9
- Reinsurance recoveries	123.5	87.2	183.0
- Other receivables	6.9	0.8	10.8
Deferred acquisition costs	123.6	81.2	73.8
Other receivables	28.8	4.2	18.7
Inwards premiums receivable from insureds and cedants	464.5	276.6	288.4
Deferred tax asset	-	5.7	-
Corporation tax receivable	4.8	-	5.6
Investment in associates	28.3	53.6	64.7
Property, plant and equipment	2.4	2.1	2.8
Intangible assets	157.8	-	177.2
Total assets	**3,532.3**	**2,616.6**	**3,267.8**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	831.5	513.8	853.4
- Unearned premiums	642.9	440.1	442.1
- Other payables	39.3	24.8	28.9
Amounts payable to reinsurers	70.5	43.7	30.9
Deferred acquisition costs ceded	0.7	3.9	0.2
Other payables	69.3	64.0	80.7
Deferred tax liability	37.4	-	38.7
Interest rate swap	4.0	1.7	0.2
Long-term debt	331.9	258.3	332.3
Total liabilities	**2,027.5**	**1,350.3**	**1,807.4**
Shareholders’ equity			
Share capital	94.6	84.3	92.7
Own shares	(21.2)	(47.3)	(36.8)
Share premium	-	2.4	192.2
Contributed surplus	837.3	652.6	645.7
Accumulated other comprehensive income	13.1	(1.2)	2.9
Other reserves	31.0	51.1	55.2
Retained earnings	549.5	524.4	507.8
Total shareholders' equity attributable to Lancashire	**1,504.3**	**1,266.3**	**1,459.7**
Non-controlling interest	0.5	-	0.7
Total liabilities and shareholders' equity	**3,532.3**	**2,616.6**	**3,267.8**
Basic book value per share	$8.05	$7.76	$8.06
Fully converted book value per share	$7.67	$7.19	$7.50

Statement of consolidated cashflows
(Unaudited)

	Unaudited Six Months 2014 $m	Unaudited Six Months 2013 $m	Unaudited Twelve Months 2013 $m
Cash flows from operating activities			
Profit before tax	98.9	137.2	218.1
Tax paid	1.0	0.4	(0.4)
Depreciation	0.6	0.7	1.4
Amortisation of intangible asset	19.4	-	13.2
Interest expense on long-term debt	7.8	6.2	13.2
Interest and dividend income	(21.9)	(22.5)	(43.9)
Net amortisation of fixed income securities	4.9	6.7	12.9
Equity based compensation	10.7	7.2	16.7
Foreign exchange (losses) gains	7.8	(1.8)	(11.8)
Share of profit of associates	(2.5)	(6.2)	(9.2)
Net other investment losses (income)	0.9	(3.8)	(1.4)
Net realised losses (gains) and impairments	3.9	(12.1)	(12.6)
Net unrealised losses (gains) on interest rate swaps	3.9	(6.3)	(7.8)
Changes in operational assets and liabilities			
-insurance and reinsurance contracts	(7.8)	(40.3)	(26.1)
-other assets and liabilities	(29.9)	12.1	5.4
Net cash flows from operating activities	**97.7**	**77.5**	**167.7**
Cash flows (used in) from investing activities			
Interest, dividends and other income received	27.9	25.6	44.4
Net purchase of property, plant and equipment	(0.3)	-	(0.1)
Investment in associates	38.8	34.7	26.6
Acquisition of subsidiaries, net of cash acquired	-	-	(227.2)
Purchase of investments	(1,215.4)	(610.0)	(1,277.9)
Proceeds on sale of investments	1,077.0	833.1	1,521.2)
Net cash flows (used in) from investing activities	**(72.0)**	**283.4**	**87.0**
Cash flows used in financing activities			
Interest paid	(7.8)	(6.1)	(12.0)
Proceeds from issue of shares, net of share issue costs	-	-	198.2
Dividends paid	(63.2)	(220.6)	(325.6)
RSS compensation	(9.8)	-	-
Distributions by trust	(5.5)	(5.9)	(8.6)
Issue of shares to non-controlling interests	-	-	1.3
Net cash flows used in financing activities	**(86.3)**	**(232.6)**	**(146.7)**
Net (decrease) increase in cash and cash equivalents	**(60.6)**	**128.3**	**108.0**
Cash and cash equivalents at beginning of period	403.0	295.8	295.8
Effect of exchange rate fluctuations on cash and cash equivalents	3.0	(10.5)	(0.8)
Cash and cash equivalents at end of period	**345.4**	**413.6**	**403.0**