LANCASHIRE HOLDINGS LIMITED

Consolidated Financial Statements

For the period from October 12, 2005 (date of incorporation)
to December 31, 2005

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS

LANCASHIRE HOLDINGS LIMITED

We have audited the accompanying financial statements of Lancashire Holdings Limited and its subsidiaries (collectively the "Group"), which comprise the consolidated balance sheet as at December 31, 2005 and the consolidated statement of operations, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the period from October 12, 2005 (date of incorporation) to December 31, 2005. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2005, and of its financial performance and cash flows for the period from October 12, 2005 (date of incorporation) to December 31, 2005, in accordance with International Financial Reporting Standards.

Ernst + Young

Chartered Accountants

March 9, 2006

CONSOLIDATED INCOME STATEMENT

For the period from October 12, 2005 (date of incorporation) to December 31, 2005

	Note	2005 $'000
Revenue		
Gross premiums written		2,638
Premium ceded to reinsurers		-
Net premiums written		**2,638**
Gross change in unearned premiums		(2,620)
Net premiums earned		**18**
Interest income	**5**	**2,073**
Total revenue		**2,091**
Expenses		
Acquisition costs		(5)
Employee benefits expense	**15**	(8,645)
Depreciation and amortization		(19)
Other operating expenses		(1,304)
Total expenses		**(9,973)**
Operating loss		**(7,882)**
Finance costs		(3,670)
Loss for the period attributable to shareholders		**(11,552)**
Basic earnings (loss) per share (dollars per share)	**6**	**($0.24)**
Diluted earnings (loss) per share (dollars per share)	**6**	**($0.24)**

The notes on pages 6 to 17 are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

As at December 31, 2005

	Note	2005 $'000
Assets		
Property, plant and equipment	**7**	404
Intangible assets: software	**8**	305
Deferred acquisition costs		515
Other receivables	**9**	2,025
Insurance balances receivable	**10**	2,118
Cash and cash equivalents	**11**	1,072,383
Total assets		**1,077,750**
Liabilities		
Unearned premium		2,620
Long-term debt	**12, 16**	125,420
Accrued interest payable	**12**	431
Other payables	**13**	2,185
Total liabilities		**130,656**
Shareholders' equity		
Share capital	**14**	97,857
Share premium account	**15**	860,789
Retained deficit		(11,552)
Total shareholders' equity attributable to shareholders		**947,094**
Total liabilities and shareholders' equity		**1,077,750**

The consolidated financial statements were approved by the Board of Directors on March 9, 2006 and signed on its behalf by:

The notes on pages 6 to 17 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from October 12, 2005 (date of incorporation) to December 31, 2005

	Share Capital	Share Premium Account	Retained Deficit	Total Shareholders' Equity
	$'000	$'000	$'000	$'000
Loss for the period	-	-	(11,552)	**(11,552)**
Total income and expense for the period	-	-	(11,552)	**(11,552)**
Issue of share capital (Note 14)	97,857	880,692	-	**978,549**
Equity offering expenses	-	(58,626)	-	**(58,626)**
Formation expenses	-	(36,120)	-	**(36,120)**
Warrants – Management (Note 15)	-	8,437	-	**8,437**
Warrants – Founders (Note 15)	-	46,448	-	**46,448**
Warrants – Sponsor (Note 15)	-	19,958	-	**19,958**
Closing balance at December 31, 2005	**97,857**	**860,789**	**(11,552)**	**947,094**

The total income and expense for the period is fully attributable to shareholders.

The notes on pages 6 to 17 are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the period from October 12, 2005 (date of incorporation) to December 31, 2005

	Note	2005 $'000
Cash flows from operating activities		
Loss before interest income and expense		(13,194)
Interest income		2,073
Interest expense		(431)
Loss after interest income and expense		(11,552)
Adjustments for non cash items:		
Employee benefits expense		8,437
Depreciation and amortisation		19
Foreign exchange losses on financing items		(285)
Changes in operational assets and liabilities:		
Deferred acquisition costs		(515)
Other receivables		(2,025)
Insurance balances receivable		(2,118)
Unearned premium		2,620
Accrued interest payable		431
Other payables		1,242
Net cash flows used in operating activities		**(3,746)**
Cash flows from investing activities		
Purchase of property, plant and equipment		(414)
Purchase of intangible assets: software		(314)
Net cash flows used in investing activities		**(728)**
Cash flows from financing activities		
Proceeds from issue of share capital		978,549
Transaction costs from issue of share capital		(12,178)
Formation expenses		(15,220)
Proceeds from issue of long-term debt		125,709
Net cash flows received from financing activities		1,076,860
Net increase in cash and cash equivalents		**1,072,386**
Cash and cash equivalents at beginning of period		-
Effect of exchange rate fluctuations on cash and cash equivalents		(3)
Cash and cash equivalents at end of period	**11**	**1,072,383**

The notes on pages 6 to 17 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Lancashire Holdings Limited ("LHL") and its subsidiaries (collectively the "Group") is a provider of global property insurance and reinsurance products. LHL was incorporated under the laws of Bermuda on October 12, 2005. LHL is listed on the Alternative Investment Market ("AIM"), a subsidiary market of the London Stock Exchange. The registered office of LHL is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. LHL has two wholly owned subsidiaries: Lancashire Insurance Company Limited ("LICL") and Lancashire Insurance Marketing Services Limited ("LIMSL"). LICL is the Group's principal operating subsidiary and was incorporated under the laws of Bermuda as a Class 4 insurer on October 28, 2005. LICL provides insurance and reinsurance products to its customers, with an emphasis on marine, energy and property lines of business. LIMSL provides business introduction and other support services to LICL, and was incorporated under the laws of the United Kingdom on October 7, 2005.

2. Significant accounting policies

(i) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission. Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In this instance the Group defers to accounting principles generally accepted in the United States ("US GAAP").

The new IFRS 7, Financial Instruments Disclosure, which has been issued but not yet effective, has not been applied. IFRS 7 is not expected to have a material impact on the results reported in the financial statements.

The balance sheet of the Group is presented in order of increasing liquidity.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts at the balance sheet date and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates made.

All amounts unless otherwise stated are in thousands of US dollars.

(ii) Basis of consolidation

The Group's consolidated financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of Lancashire Holdings Limited and its subsidiaries. A subsidiary is an entity in which the Group owns, directly or indirectly, more than 50% of the voting power of an entity or otherwise has the power to govern the operating and financial policies. The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition. Intercompany balances, profits and transactions are eliminated.

2. Significant accounting policies (continued)

(iii) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

a. Premiums

Premiums written and ceded relate to business which incepted during the period and are recorded on the accruals basis in accordance with the policy terms, except for those contracts where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognized over the period of risk in proportion to the amount of insurance protection provided. Premiums are recorded net of premium taxes and other levies on premiums. Any adjustments to premiums are recognised in income in the period in which they are determined. Insurance balances receivable are reviewed for impairment, with any impairment loss recognised in income. The portion of the premiums related to the unexpired portion of the policy or risk is recorded in unearned premiums. The reinsurers share of unearned premiums is recognised as an asset using the same principles.

b. Deferred acquisition costs

Acquisition costs represent commissions and other variable costs that relate to the securing of new contracts and the renewing of existing contracts. They are deferred over the period in which the related premiums are earned to the extent they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Unearned reinsurance commissions are recognised as a liability using the same principles.

c. Losses incurred

Losses incurred comprise loss and loss adjustment expenses paid in the year and changes in the provision for outstanding losses, including the provision for losses incurred but not reported and related expenses. Loss and loss adjustment expenses are charged to income as they are incurred and are mainly external costs related to the negotiation and settlement of claims.

d. Insurance provisions

Insurance provisions represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for losses incurred but not reported. The Group does not discount its liabilities for unpaid losses. Outstanding losses are based on estimates of losses reported by cedants or claims adjusters. The provision for losses incurred but not reported is determined with the assistance of an independent actuary. The methods used are based on anticipated development factors and are continually revised and updated by the Group. The estimation of the ultimate liability arising is a complex and judgemental process. It is reasonably possible that unknown future conditions could lead to a material change in the estimate.

2. Significant accounting policies (continued)

(iii) Insurance contracts (contined)

e. Liability adequacy tests

At each balance sheet date, the Group performs a liability adequacy test using current best estimates of future cash flows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to the income statement for the period initially by writing off deferred acquisition costs and subsequently by establishing a provision.

(iv) Intangible assets: software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software.

All computer software costs are treated as finite life assets and amortised on a straight-line basis over their expected useful lives, not exceeding a period of five years.

(v) Property, plant and equipment

Property, plant and equipment is comprised of office equipment carried at historical cost, less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are only included in the assets carrying amounts when it is probable that a future economic benefit will arise. Costs for repairs and maintenance are charged to the income statement as incurred. Depreciation is calculated to write-off the cost over the established useful economic life on a straight-line basis. Office equipment is depreciated at 33% per annum. The assets' residual value, useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of office equipment is derecognized on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the income statement.

(vi) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition. Carrying amounts approximate fair value due to the short term nature of the instruments.

(vii) Interest income

Interest income is comprised of interest earned on cash and cash equivalents and is recognized on the accruals basis. The carrying value of accrued interest income approximates fair value due to its short term nature.

2. Significant accounting policies (continued)

(viii) Warrants

The Group has issued warrants to certain founding shareholders, a sponsor and certain members of senior management, as described more fully in Note 15. The fair value of the equity instrument granted is estimated on the date of grant.

Warrants issued to founding shareholders are treated as a capital transaction and the associated fair value is charged to the share premium account. The fair value of warrants issued to the sponsor for assistance with incorporation and other start-up services is treated as a formation expense and is deducted from the share premium account (See Note 2 (xii)). Management warrants are recognized as an expense pro-rata over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of warrants that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to shareholders' equity over the remaining vesting period.

On vesting or exercise, the differences between the expense charged to the income statement and the actual cost to the Group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(ix) Leased assets

Where the Group enters into an operating lease, the payments are charged to the income statement on a straight-line basis over the lease term.

(x) Foreign currency translation

The consolidated financial statements are presented in United States ("U.S.") dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency, which is the currency of the primary economic environment in which operations are conducted. The functional currency is also U.S. dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the income statement. Non-monetary assets and liabilities denominated in a foreign currency are held at historic rates.

2. Significant accounting policies (continued)

(xi) Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Thereafter it is held at amortized cost, with the amortization calculated using the effective interest rate method.

(xii) Share capital and formation expenses

Shares are classified as shareholders' equity if there is no obligation to transfer cash or other financial assets.

The costs incurred in forming the Group have been treated as a deduction to shareholders' equity.

3. Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities in future periods. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) The ultimate liability arising from claims made under insurance and reinsurance contracts.

The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts will be the Group's most critical accounting estimate. The Group began writing insurance and reinsurance business in December 2005. Accordingly, the Group earned a limited amount of premium in 2005. Due to the underlying risks and lack of known loss events occurring during the period to December 31, 2005, the Group does not expect to incur any losses from coverage provided in 2005. The Group has no ceded reinsurance in 2005.

Provisions for outstanding losses and losses incurred but not reported will be based, in part, on the estimation of losses resulting from catastrophic events. Estimation of losses and loss adjustment expenses resulting from catastrophic events will be inherently difficult due to the possible severity of catastrophe claims. It is likely that the final outcome will be different from the original amount established. As described in Note 2(iii)d, management estimates the provision for losses incurred but not reported with the assistance of an independent actuary.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

ii) The valuation of warrants

The fair values of warrants issued are estimated at the date of grant using a Black-Scholes option-pricing model. The key assumptions used to determine the fair value are highly subjective. These include an estimate of the expected life of each warrant, the volatility, and an estimate of whether forfeitures or other dilutive events (such as performance requirements) will occur. The estimation of these assumptions is inherently difficult because the Group has no performance history to use in evaluating the reasonability of each assumption. Accordingly, management has assumed the maximum life for each warrant of 10 years and that no forfeitures or other dilutive events will occur. The volatility assumption has been estimated by reference to industry data. Changes in the assumptions regarding the amount of warrants issued to management that will ultimately vest will be updated at each balance sheet date and the adjustment, if any, will be recorded in income in the period determined.

4. Risk management policies

The Group will underwrite contracts that transfer insurance risk. The uncertainty in connection with such contracts is (a) whether the insured event occurs, (b) the amount of any resulting claim and (c) whether pricing and investment income will be sufficient to cover the resulting claim. The Group will manage these risks via a robust underwriting strategy and process, an appropriate reinsurance program and active monitoring of expected losses and aggregation.

The risk associated with estimation of expected losses is discussed in Note 3.

Other significant risks that are expected to impact the Group are credit risk, liquidity risk and market risk. Currently, the Group is impacted only by market risks associated with the long-term debt issued. These risks are discussed further in Note 12.

5. Interest income

	2005 $'000
Interest income	**2,073**

Interest income of $1,983 was earned from funds invested in an Institutional Liquidity Fund with an average yield of 4.17% for the period. The remaining interest income of $90 was earned on the Group's operating accounts, which are invested in a corporate money market account.

6. Earnings per share

Basic earnings or loss per share amounts are calculated by dividing net profit or loss for the period attributable to shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings or loss per share amounts are calculated by dividing the net profit or loss attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares.

The following reflects the loss and share data used in the basic and diluted loss per share computations:

	2005 $'000
Loss for the period attributable to shareholders	(11,552)

	Number of shares Thousands
Basic weighted average number of shares	48,320
Potentially dilutive shares related to share-based compensation	5,733
Diluted weighted average number of shares	54,053

Share based payments are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. In the current period, incremental shares from the assumed exercising of warrants are not included in calculating the diluted earnings or loss per share as it would drive the loss per share further negative.

7. Property, plant and equipment

	2005 $'000
Additions	414
Depreciation for the period	(10)
Net carrying amount as at December 31, 2005	**404**

8. Intangible assets

	2005 $'000
Additions	314
Amortization for the period	(9)
Net carrying amount as at December 31, 2005	**305**

9. Other receivables

	2005 $'000
Prepayments	43
Accrued interest income	1,982
	2,025

All amounts are due within one year of the balance sheet date. The carrying value approximates fair value due to the short term nature of the receivables.

10. Insurance balances receivables

	2005 $'000
Direct insurance receivables	**2,118**

All amounts are due within one year of the balance sheet date. The carrying value approximates fair value due to the short term nature of the receivables.

11. Cash and cash equivalents

Cash and cash equivalents include the following:

	2005 $'000
Cash at bank and on deposit	12,187
Cash equivalents	1,060,196
	1,072,383

Included in cash and cash equivalents are amounts totaling $5,400 held in trust for the benefit of policyholders.

12. Long-term debt

	2005 $'000
Senior loan note of €12,000,000	14,210
Senior loan note of €12,000,000	14,210
Subordinated loan note of $97,000,000	97,000
	125,420

As part of the initial financing of the Group, loan notes denominated in US dollars and Euros as discussed below were issued.

The Euro senior loan notes are repayable on June 15, 2035 with a prepayment option available from March 15, 2011. Interest on the principal is based on a set margin (3.7%) above Euribor and is payable quarterly.

The US dollar subordinated loan notes are repayable on December 15, 2035 with a sliding scale redemption price from December 16, 2005. Interest on the principal is based on a set margin (3.7%) above Libor and is payable quarterly.

The interest accrued on the loans payable was $431 at the balance sheet date.

Due to the long term nature of the loans and the floating interest rates, the carrying value approximates fair value.

The Group conducts various parts of its business in currencies other than and including its functional currency, and therefore has exposure to exchange rate fluctuations. This risk is not judged to be significant in the current period. In future, should these risks increase, the Group may use forwards to hedge its exposures. In addition, the Group is exposed to cash flow interest rate risk which may in the future be managed by interest rate swaps.

13. Other payables

	2005 $'000
Other payables	**2,185**

All amounts are payable within one year of the balance sheet date. The carrying value approximates fair value due to the short term nature of the payables.

14. Share capital

	Authorised Thousands	Issued Thousands	Share Capital $'000
Common shares of $0.50 each	3,000,000	195,714	97,857

The authorized share capital is 3,000,000,000 common shares at $0.50 each. All issued shares are fully paid.

15. Warrants

Founders

In conjunction with the capitalization of the Group, warrants have been issued to certain founding shareholders to purchase 17,791,919 common shares. These warrants were granted on December 12, 2005 and were fully vested and exercisable upon issuance.

Sponsor

In consideration for incorporation services received, warrants have been issued to Benfield Advisory Limited to purchase 7,625,217 common shares. These warrants were granted on December 16, 2005 and were fully vested and exercisable upon issuance.

Management

Basic

On December 16, 2005, certain members of senior management were issued warrants with no associated performance criteria to purchase 12,708,695 common shares. 25 percent of such warrants vested immediately upon issuance. Thereafter, 25 percent of such warrants will vest on the first, second and third anniversary of the grant date.

Book value performance warrants

On December 16, 2005, book value performance warrants were issued to certain members of senior management to purchase 3,812,609 common shares. The warrants vest over a four year period and are dependent on certain performance criteria with specific measurement dates of December 31, 2007, December 31, 2008 and December 31, 2009. These warrants will only vest on achievement of a fully diluted book value per share in comparison to a planned appreciation threshold of between 70% and 100% at certain dates.

Compound return entitlement warrants

Compound return entitlement warrants were issued to certain members of senior management to purchase 3,812,609 common shares. The warrants vest over a four year period and are dependent on certain performance criteria with specific measurement dates of December 31, 2007, December 31, 2008 and December 31, 2009. These warrants will only vest on the achievement of a compound total return of between 20% and 30%.

All warrants issued to founders, the sponsors and management will expire ten years from the date of issue and will be exercisable at an initial price per share of US$5.00 equal to the price per share paid by investors in the initial public offering. Settlement is at the discretion of the Group and may be in cash or shares.

15. Warrants (continued)

The fair value of each warrant was estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used for valuation of these grants were as follows: risk free interest rate of 4.93%; an expected life of ten years; volatility of 30% being the maximum contractual rate; performance targets will be met; dividend yield of nil due to contractual dividend protection; the Group will settle in shares; no forfeitures and no dilutive events.

Warrants	**Number Thousands**	**Weighted Average Exercise Price US$**
Granted during the year and outstanding at December 31,2005	45,751	$5.00
Exercisable at December 31, 2005	28,594	-

The fair value of warrants granted during the period ended December 31, 2005 was $2.62 per share. A share-based payment expense of $8,437 is included in Employee benefits expense in the income statement.

16. Related party disclosures

The consolidated financial statements include Lancashire Holdings Limited and the subsidiaries listed below:

Name	**Domicile**	**Voting rights**	**Ownership interest**
Lancashire Insurance Company Limited	Bermuda	100%	100%
Lancashire Insurance Marketing Services Limited	Great Britain	100%	100%
Lancashire Holdings Financing Trust 1	USA	100%	100%

The Group has issued loan notes via a trust vehicle - Lancashire Holdings Financing Trust I (the "Trust") (see Note 12). The Group has 100% of the voting rights in the Trust, provided that there is no default on the loan notes. While the ability of the Group to influence the actions of the Trust is limited by the Trust Agreement, the Trust was set up by the Group with the sole purpose of issuing the loan notes, and essentially operates on autopilot. The Trust is in essence controlled by the Group, operates exclusively for the benefit of the Group, and is therefore consolidated.

Remuneration for key management for the period was as follows:

	2005 $'000
Short-term compensation	51
Share based compensation	5,111
	5,162

17. Non-cash transactions

Accrued formation expenses of $941 have been recorded directly in shareholders' equity. This amount represents a non-cash transaction and therefore is not included within the change in operational assets and liabilities in the consolidated cashflow statement.

18. Taxation

Bermuda
The Group has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 28, 2016. At the present time no such taxes are levied in Bermuda.

United States
The Group does not consider itself to be engaged in trade or business in the United States and, accordingly, does not expect to be subject to United States taxation.

United Kingdom
LIMSL is subject to normal UK tax on all profits of the Company. For the period ended December 31, 2005 LIMSL does not have any corporation tax liability.

19. Statutory requirements and dividend restrictions

As a holding company, LHL relies on dividends from its subsidiaries to provide cash flow required for debt service and dividends to shareholders. LICL's ability to pay dividends and make capital distributions is subject to certain regulatory restrictions based principally on the amount of LICL's premiums written and reserves for losses and loss expenses, subject to an overall minimum solvency requirement of $100,000. In addition, LICL is required to maintain a minimum statutory liquidity ratio. At December 31, 2005, LICL's statutory capital and surplus was $1,069,618 and the minimum amount of statutory capital and surplus required to be maintained was $100,000.