

LANCASHIRE HOLDINGS LIMITED

Lancashire reports excellent results for the first quarter of 2007 Fully converted book value grows 7.2% Combined ratio of 47.3%

Hamilton, Bermuda, 1 May 2007

Lancashire Holdings (“Lancashire” or “the Company”) today announces its first quarter results for the three month period ended 31 March 2007.

Financial Highlights

- Fully converted book value per share of \$6.09 for the end of the first quarter of 2007, reflecting growth of \$0.41, or 7.2%, over the quarter.
- Growth in fully converted book value per share of 24.3% in the twelve months to March 31, 2007.
- For the three months ended March 31, 2007, the Company generated operating income¹ of \$88.1 million, or \$0.43 diluted operating earnings per common share.
- Net income after tax was \$87.9 million or \$0.43 diluted earnings per common share in the quarter, compared to net income of \$9.3 million or \$0.05 diluted earnings per common share for the same quarter of 2006.

The Company's first quarter 2007 results benefited from light loss activity in the majority of classes. The first quarter of 2006 was the Company's first operational quarter after its formation in late 2005 and, as such, year on year comparisons should be viewed in that context.

Richard Brindle, Group Chief Executive Officer, commented:

“We are very pleased with the results that Lancashire achieved in the first quarter of 2007. Since our launch in December 2005, we have become a major player in the insurance industry by maintaining clear operating principles, executing a sound business strategy, exploiting competitive advantages, and actively managing the cycle.

“Our UK underwriting platform, which was launched in the fourth quarter of 2006, has made a notable contribution to our growing market position over the past several months. The increase in submissions in the first quarter of 2007 compared to the same period in 2006 has been very strong, resulting in 60% growth in our gross written premiums year on year. As always, we will remain committed to strong underwriting discipline.

“Substantial premium growth, combined with better than expected loss experience, was the primary driver behind Lancashire's ROE of 7.2% for the first quarter. Year on year premium growth in subsequent quarters will likely be lower than 60%; however, our

¹ Operating income excludes realized gains and losses, foreign exchange gains or losses, warrants issued at the IPO and taxes.

previously stated 2007 ROE estimate of between 20% and 25%, assuming a normal level of losses, and premium growth estimate of at least 20%, based on anticipated pricing and terms, remain unchanged.

“Going forward, we remain reasonably optimistic about trading conditions throughout 2007. In the majority of classes of risks written by Lancashire, with the exception of marine, favourable 2006 pricing and terms are largely expected to continue throughout 2007. In classes not exposed to natural catastrophes, there may be some modest weakening of trading conditions, but pricing is expected to remain broadly acceptable in most classes. We have also seen a reduction in demand and rate levels for property catastrophe retrocession. Overall, the outlook for 2007 trading conditions for Lancashire is attractive.

We believe our business plan, as a diversified direct specialty insurance writer, lends itself to strong performance through hard and soft cycles. We underwrite a diverse worldwide portfolio of short-tail property risks. Programs are mostly written on a direct basis, and the majority of the 2007 book is not expected to be significantly exposed to natural catastrophes. We believe this strategy will generate above average returns for shareholders over time.”

Lancashire Holdings Limited
summary consolidated income statements
(\$ millions, except per share amounts)

	q1 2007 (unaudited)	q1 2006 (unaudited)
gross premiums written	\$ 180.7	\$ 112.4
outwards reinsurance premiums	(6.1)	-
net premiums written	174.6	112.4
change in unearned premiums	(27.6)	(93.6)
change in unearned premiums on premium ceded	(6.8)	-
net premiums earned	140.2	18.8
net investment income	16.7	11.5
other investment income	(0.1)	-
share of profit of associate	1.3	-
total net revenue	158.1	30.3
insurance losses and loss adjustment expenses	32.0	4.0
insurance losses and loss adjustment expenses recoverable	-	-
net insurance acquisition expenses	20.3	1.9
finance costs	3.0	2.5
equity based compensation - share options	0.7	2.2
other operating expenses	14.0	5.9
total expenses	70.0	16.5
net operating income	88.1	13.8
equity based compensation - warrants	3.0	3.8
net foreign exchange gains (losses)	1.4	(0.6)
net realised gains (losses) and impairments	1.8	(0.1)
profit before tax	88.3	9.3
tax	0.4	-
profit after tax for the period attributable to equity shareholders	\$ 87.9	\$ 9.3
insurance ratios:		
net loss ratio	22.8%	21.3%
net acquisition cost ratio	14.5%	10.1%
administrative expense ratio	10.0%	31.4%
combined ratio	47.3%	62.8%
earnings per share:		
basic earnings per share	\$ 0.45	\$ 0.05
diluted earnings per share	\$ 0.43	\$ 0.05

Lancashire Holdings Limited
summary consolidated balance sheets
(\$ millions, except per share amounts)

	<u> march 31, 2007 </u>	<u> december 31, 2006 </u>
	(unaudited)	(audited)
assets		
cash & cash equivalents	\$ 366.6	\$ 400.1
accrued interest receivable	9.5	7.5
investments		
- fixed income securities	1,109.7	896.3
- equity securities	65.2	70.3
- other investments	11.1	11.5
reinsurance assets		
- reinsurance balances receivable	0.6	-
- unearned premium on premium ceded	12.2	19.1
deferred acquisition costs	55.7	51.5
inwards premium receivable from insureds and cedants	179.5	173.7
investment in associate	23.6	23.2
other assets	16.4	9.5
total assets	<u>\$ 1,850.1</u>	<u>\$ 1,662.7</u>
liabilities		
insurance contracts		
- loss and loss adjustment expenses	\$ 70.1	\$ 39.1
- unearned premiums	353.3	325.7
- other payables	6.7	3.6
amounts payable to reinsurers	5.1	2.4
deferred acquisition costs ceded	2.5	2.5
other payables	49.9	23.2
long-term debt	129.0	128.6
total liabilities	<u>616.6</u>	<u>525.1</u>
shareholders' equity		
share capital	97.9	97.9
share premium	37.2	33.6
contributed surplus	849.7	849.7
fair value and other reserves	13.1	8.7
retained earnings	235.6	147.7
total shareholders' equity attributable to equity shareholders	<u>\$ 1,233.5</u>	<u>\$ 1,137.6</u>
total liabilities and shareholders' equity	<u>\$ 1,850.1</u>	<u>\$ 1,662.7</u>
basic book value per share	\$ 6.30	\$ 5.81
fully converted book value per share	\$ 6.09	\$ 5.68

Further detail of our 2007 first quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Lancashire will be hosting an analyst and investor conference call at 1:30 UK time / 8:30 EDT on 2 May 2007 to discuss our trading update. The conference call will be hosted by Richard Brindle, Group Chief Executive Officer, Simon Burton, Deputy Chief Executive Officer and Neil McConachie, Chief Financial Officer.

The call can be accessed by dialing +44 (0) 20 7138 0816 / +1 718 354 1171. A replay facility will be available for two weeks until Wednesday 16 May. The dial in number for the replay facility is +44 (0) 20 7806 1970 / +1 718 354 1112 and the passcode is 4900982#.

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Investor enquiries and questions can also be directed to investors@lancashire.bm or by accessing the Company's website www.lancashiregroup.com.

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 stable outlook. Lancashire has capital in excess of \$1 billion and its Common Shares trade on AIM under the ticker symbol LRE. Lancashire is headquartered at Mintflower Place, 8 Par-La-Ville Road, Hamilton HM 08, Bermuda. 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

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