

# Lancashire Holdings Limited

**Fully converted book value grows 5.4% in Q2, 13.0% year to date**  
**Gross written premiums grow 32.8% in Q2, 42.7% year to date**  
**Combined ratio 56.6% in Q2, 52.2% year to date**

Hamilton, Bermuda, 6 August 2007

Lancashire Holdings (“Lancashire” or “the Company”) today announces its results for the second quarter of 2007 and the six month period ended 30 June 2007.

Despite a backdrop of significant industry insurance losses and challenging investment markets, Lancashire has continued to generate excellent growth in book value.

## **Financial highlights for the second quarter of 2007:**

- Fully converted book value per share grows 5.4% over the quarter;
- Gross written premiums of \$270.8 million, an increase of 32.8% from the second quarter of 2006. Net written premiums increased 51.6%;
- Loss ratio of 34.4% and a combined ratio of 56.6%;
- Total annualised investment return of 3.8% for the second quarter, including net investment income, realized gains and losses, and unrealized gains and losses;
- Net income after tax of \$82.5 million, \$0.40 diluted earnings per share, or £0.20 diluted earnings per share.

## **Financial highlights for the six months to 30 June 2007:**

- Fully converted book value per share grows 13.0% for the first half of 2007, bringing the rolling 12 month growth in fully converted book value per share to 27.1%;
- Gross written premiums of \$451.5 million, an increase of 42.7% from the first half of 2006. Net written premiums increased 53.3%;
- Loss ratio of 28.9% and a combined ratio of 52.2%;
- Total annualised investment return of 5.3% for the six months to 30 June 2007, including net investment income, realized gains and losses, and unrealized gains and losses;
- Net income after tax of \$170.4 million for the six months to 30 June, 2007, \$0.83 diluted earnings per share, or £0.42 diluted earnings per share.

**Richard Brindle, Group Chief Executive Officer, commented:**

“In both relative and absolute terms, Lancashire has enjoyed an excellent first half of 2007. A 13% return on equity to date is evidence that our underwriting judgment is sound and our risk management is robust. In addition to events in Australia and Japan, we were tested by the June U.K. flooding; a loss which, on current estimates, ranks in the top 10 of non-U.S. catastrophe events in recent memory. Despite these events, Lancashire produced combined ratios of 56.6% and 52.2% for the quarter and year to date, respectively. Our investment portfolio also stood up well, reflecting our strategy to keep duration short and credit quality high. We maintain a low risk tolerance on investments, and do not currently hold any sub-prime or CDO securities.”

“When we started this business, we chose a different path from other post-Katrina market entrants and indeed from many existing companies. It was assumed we would be a mono-line property cat reinsurer. In fact, the Lancashire strategy is entirely different. Our approach is to write a diversified book of direct specialty insurance. We have built an excellent team, broadened our platform beyond Bermuda within nine months and established a sophisticated framework of operations thoroughly grounded in enterprise-wide risk management principles. Today, we’re very pleased to have completed our transition to an established major specialty insurer. Our start-up days are well and truly over.”

**Underwriting results**

Gross written premiums increased 32.8% in the second quarter of 2007 compared to the same period in 2006. In 2007 to date, gross written premiums increased 42.7% compared to the first six months of 2006. The main drivers were the UK operating platform, which began underwriting in late 2006, and a substantial increase in submission count. All segments experienced an increase in premiums written. Direct and facultative property and worldwide energy classes in particular experienced the largest growth.

In general, rates continue to soften and this is expected to continue in the absence of significant industry losses. However, in the majority of classes underwritten, rates and terms remain good overall.

In the quarter and for the year to date, the amount of premium ceded was similar to the prior year periods, reflecting a slightly higher retention rate in 2007 than 2006. Net written premiums increased 51.6% in the second quarter of 2007 compared to the second quarter of 2006, and increased 53.3% year to date over the same period in 2006.

Net earned premiums as a proportion of net written premiums were 75% in the second quarter of 2007, and 78% in the six months to 30 June 2007. This ratio is reflective of a growing portfolio and is expected to gradually increase as the year progresses.

The loss ratios of 34.4% and 28.9% for the three and six months to 30 June 2007, respectively, reflect a very good underwriting performance in all segments. Lancashire does not currently expect to incur losses from the June UK flooding.

**Investments**

Net investment income was \$18.6 million for the second quarter, an increase of 46.5% over the second quarter of 2006. Net investment income was \$35.3 million in the six months to 30 June 2007, an increase of 45.9% over the first half of 2006. The increase in investment income is primarily due to high net operating cashflow, resulting in higher net invested assets.

Total investment return, including net investment income, net realized gains and losses and net unrealized gains and losses, was \$12.6 million in the quarter and \$30.5 million for the year to date. Total investment return was lower than net investment income due primarily to weak fixed income markets in the second quarter. This weakness was mitigated by Lancashire's strategy to maintain duration short and credit quality high.

## **Capital**

At 30 June 2007, total capital was \$1.440 billion, comprising shareholders' equity of \$1.310 billion and \$129 million of long-term debt. Leverage was 9.0%.

## **Guidance**

2007 guidance on gross premiums and return on equity remains unchanged. Based on anticipated terms and conditions, 2007 gross premiums written are expected to increase by at least 20% over 2006. Fully converted book value per share is projected to increase between 20 and 25% in 2007, including dividends, assuming a normal level of losses.

Should Lancashire experience normal or lower than expected loss activity, and underwriting opportunities consequently decrease, it is likely that a significant proportion of 2007 profits will be returned to shareholders upon approval by the Board of Directors.

**Further detail of our 2007 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website [www.lancashiregroup.com](http://www.lancashiregroup.com).**

## **Investor Presentation and Earnings Call**

There will be an investor presentation on the results at 1200UK time (BST) on Monday 6 August at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. This presentation will be hosted by Richard Brindle, Chief Executive Officer; Neil McConachie, Chief Financial Officer; and Simon Burton, Deputy Chief Executive Officer. Those wishing to attend are asked to contact Rob Bailhache or Nick Henderson at Financial Dynamics on +44 (0) 207 269 7200 / [robert.bailhache@fd.com](mailto:robert.bailhache@fd.com) or +44 (0) 207 269 7114 / [nick.henderson@fd.com](mailto:nick.henderson@fd.com).

The presentation will also be accessible via a conference call for those unable to attend in person. To dial-in please call 0845 245 5000 / 1 866 832 0717 (pass code: 6408031)

There will also be a live webcast of the presentation at [www.lancashiregroup.com](http://www.lancashiregroup.com). A replay facility can also be accessed at [www.lancashiregroup.com](http://www.lancashiregroup.com).

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Investor enquiries and questions can also be directed to [investors@lancashiregroup.com](mailto:investors@lancashiregroup.com) or by accessing the Company's website [www.lancashiregroup.com](http://www.lancashiregroup.com).

**Consolidated Balance Sheet**  
(Unaudited) 30 June 2007

|   | <b>June 30, 2007</b> | <b>December 31, 2006</b> |
|---|----------------------|--------------------------|
|   | \$m                  | \$m                      |
| <b>assets</b>   |                      |                          |
| cash and cash equivalents   | 367.7                | 400.1                    |
| accrued interest receivable   | 10.5                 | 7.5                      |
| investments   |                      |                          |
| - fixed income securities   |                      |                          |
| - available for sale  | 1,220.1              | 896.3                    |
| - at fair value through income  | 17.5                 | -                        |
| - equity securities, available for sale                               | 68.7                 | 70.3                     |
| - other investments   | 9.3                  | 11.5                     |
| reinsurance assets  |                      |                          |
| - unearned premium on premium ceded                                   | 63.5                 | 19.1                     |
| - reinsurance recoveries  | 0.5                  | -                        |
| deferred acquisition costs  | 63.8                 | 51.5                     |
| inwards premium receivable from insureds and cedants                  | 252.1                | 173.7                    |
| investment in associate   | 21.4                 | 23.2                     |
| other assets  | 16.5                 | 9.5                      |
| <b>total assets</b>   | 2,111.6              | 1,662.7                  |
| <b>liabilities</b>  |                      |                          |
| insurance contracts   |                      |                          |
| - loss and loss adjustment expenses                                   | 121.7                | 39.1                     |
| - unearned premiums   | 454.1                | 325.7                    |
| - other payables  | 6.2                  | 3.6                      |
| amounts payable to reinsurers   | 60.8                 | 2.4                      |
| deferred acquisition costs ceded                                      | 7.1                  | 2.5                      |
| other payables  | 22.2                 | 23.2                     |
| long-term debt  | 129.3                | 128.6                    |
| <b>total liabilities</b>  | 801.4                | 525.1                    |
| <b>shareholders' equity</b>   |                      |                          |
| share capital   | 97.9                 | 97.9                     |
| share premium   | 40.2                 | 33.6                     |
| contributed surplus   | 849.5                | 849.7                    |
| fair value and other reserves   | 4.5                  | 8.7                      |
| retained earnings   | 318.1                | 147.7                    |
| <b>total shareholders' equity attributable to equity shareholders</b> | 1,310.2              | 1,137.6                  |
| <b>total liabilities and shareholders' equity</b>                     | 2,111.6              | 1,662.7                  |
| basic book value per share  | \$6.69               | \$5.81                   |
| fully converted book value per share                                  | \$6.42               | \$5.68                   |

**Consolidated Income Statement**  
(Unaudited) to 30 June 2007

|  | Q2 2007<br>\$m | Q2 2006<br>\$m | Ytd 2007<br>\$m | Ytd 2006<br>\$m |
|--|----------------|----------------|-----------------|-----------------|
| gross premiums written   | 270.8          | 203.9          | 451.5           | 316.3           |
| outwards reinsurance premiums  | (69.3)         | (71.0)         | (75.4)          | (71.0)          |
| <b>net premiums written</b>  | 201.5          | 132.9          | 376.1           | 245.3           |
| change in unearned premiums  | (100.8)        | (147.8)        | (128.4)         | (241.4)         |
| change in unearned premiums on premium ceded                               | 51.2           | 60.4           | 44.4            | 60.4            |
| <b>net premiums earned</b>   | 151.9          | 45.5           | 292.1           | 64.3            |
| net investment income  | 18.6           | 12.7           | 35.3            | 24.2            |
| net realised gains (losses) and impairments                                | 2.6            | (3.2)          | 4.4             | (3.4)           |
| share of profit of associate   | 1.5            | -              | 2.8             | -               |
| net foreign exchange gains (losses)  | 0.4            | (0.5)          | 1.8             | (1.1)           |
| net other investment income (losses)                                       | (0.4)          | -              | (0.5)           | -               |
| <b>total net revenue</b>   | 174.6          | 54.5           | 335.9           | 84.0            |
| insurance losses and loss adjustment expenses                              | 52.8           | 3.5            | 84.8            | 7.4             |
| insurance losses and loss adjustment expenses recoverable                  | (0.5)          | -              | (0.5)           | -               |
| net insurance acquisition expenses   | 20.9           | 5.7            | 41.2            | 7.6             |
| equity based compensation  | 2.7            | 4.6            | 6.4             | 10.6            |
| other operating expenses   | 12.8           | 7.7            | 26.8            | 13.6            |
| <b>total expenses</b>  | 88.7           | 21.5           | 158.7           | 39.2            |
| <b>profit before tax and finance costs</b>                                 | 85.9           | 33.0           | 177.2           | 44.8            |
| finance costs  | 3.1            | 3.0            | 6.1             | 5.5             |
| <b>profit before tax</b>   | 82.8           | 30.0           | 171.1           | 39.3            |
| tax  | 0.3            | -              | 0.7             | -               |
| <b>profit after tax for the period attributable to equity shareholders</b> | 82.5           | 30.0           | 170.4           | 39.3            |
| net loss ratio   | 34.4%          | 7.7%           | 28.9%           | 11.6%           |
| net acquisition cost ratio   | 13.8%          | 12.5%          | 14.1%           | 11.8%           |
| administrative expense ratio   | 8.4%           | 16.9%          | 9.2%            | 21.1%           |
| combined ratio   | 56.6%          | 37.1%          | 52.2%           | 44.5%           |
| basic earnings per share   | \$0.42         | \$0.15         | \$0.87          | \$0.20          |
| diluted earnings per share   | \$0.40         | \$0.15         | \$0.83          | \$0.20          |
| change in fully converted book value per share                             | 5.4%           | 3.1%           | 13.0%           | 4.3%            |

**Consolidated Cash Flow Statement**  
(Unaudited to 30 June 2007)

|   | <b>Six months<br/>2007</b> | <b>Twelve months<br/>2006</b> |
|---|----------------------------|-------------------------------|
|   | \$m                        | \$m                           |
| <b>cash flows from operating activities</b>                       |                            |                               |
| profit before interest and tax                                    | 141.4                      | 116.4                         |
| interest income   | 35.3                       | 53.6                          |
| interest expense  | (5.6)                      | (10.6)                        |
| tax   | (0.7)                      | (0.2)                         |
| depreciation  | 0.7                        | 0.6                           |
| amortisation of debt securities                                   | (0.7)                      | (1.2)                         |
| employee benefit expense  | 6.4                        | 22.5                          |
| foreign exchange  | (1.3)                      | 1.9                           |
| share of profit of associate                                      | (2.8)                      | (3.2)                         |
| net unrealised losses (gains) on derivative financial instruments | 0.8                        | (1.8)                         |
| net realised (gains) losses and impairments on investments        | (4.4)                      | (0.8)                         |
| net fair value gains on investments at fair value through income  | (0.3)                      | -                             |
| unrealised (gains) losses on swaps                                | (0.9)                      | 0.9                           |
| accrued interest receivable                                       | (3.0)                      | (5.6)                         |
| reinsurance assets  |                            |                               |
| - unearned premium on premium ceded                               | (44.4)                     | (19.1)                        |
| - reinsurance recoveries  | (0.5)                      | -                             |
| deferred acquisition costs  | (12.3)                     | (51.0)                        |
| other receivables   | (6.3)                      | (6.0)                         |
| inwards premium receivable from insureds and cedants              | (77.2)                     | (171.4)                       |
| deferred tax asset  | (0.4)                      | (0.8)                         |
| insurance contracts   |                            |                               |
| - losses and loss adjustment expenses                             | 82.7                       | 39.1                          |
| - unearned premiums   | 128.4                      | 323.1                         |
| - other payables  | 2.6                        | 3.6                           |
| amounts payable to reinsurers                                     | 57.8                       | 2.4                           |
| deferred acquisition costs ceded                                  | 4.6                        | 2.5                           |
| other payables  | (1.1)                      | 18.6                          |
| corporation tax payable   | 1.2                        | 1.0                           |
| accrued interest payable  | (0.1)                      | -                             |
| <b>net cash flows from operating activities</b>                   | <b>299.9</b>               | <b>314.5</b>                  |
| <b>cash flows from investing activities</b>                       |                            |                               |
| purchase of property, plant and equipment                         | (1.0)                      | (2.6)                         |
| investment in associate   | -                          | (20.0)                        |
| dividends received from associate                                 | 4.6                        | -                             |
| purchase of debt securities                                       | (942.5)                    | (2,086.1)                     |
| purchase of equity securities                                     | (15.1)                     | (76.1)                        |
| proceeds on maturity and disposal of debt securities              | 595.4                      | 1,185.6                       |
| proceeds on disposal of equity securities                         | 23.0                       | 20.9                          |
| net purchase of other investments                                 | 2.1                        | (9.7)                         |
| <b>net cash flows used in investing activities</b>                | <b>(333.5)</b>             | <b>(988.0)</b>                |
| <b>net decrease in cash and cash equivalents</b>                  | <b>(33.6)</b>              | <b>(673.5)</b>                |
| cash and cash equivalents at beginning of period                  | 400.1                      | 1,072.4                       |
| effect of exchange rate fluctuations on cash and cash equivalents | 1.2                        | 1.2                           |
| <b>cash and cash equivalents at end of period</b>                 | <b>367.7</b>               | <b>400.1</b>                  |

## 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](http://www.lancashiregroup.com)

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