Lancashire Holdings Limited

Fully converted book value grows 7.9% in Q3, 22.0% year to date
Gross written premiums grow 33.1% in Q3, 40.2% year to date
Combined ratio 44.0% in Q3, 49.2% year to date
$100 million share repurchase authorisation

Hamilton, Bermuda, 29 October 2007

Lancashire Holdings Limited ("Lancashire" or "the Company") today announces its results for the third quarter of 2007 and the nine month period ended 30 September 2007, and the establishment of a $100 million share repurchase program.

So far this year Lancashire has successfully navigated a higher than normal frequency of medium-sized worldwide natural catastrophes, while also generating strong underwriting results in the majority of the portfolio which is not exposed to natural catastrophes. Together, this has produced an excellent return for Lancashire shareholders.

Financial highlights for the third quarter of 2007:

- Fully converted book value per share grew 7.9% over the quarter;

- Gross written premiums of $147.3 million, an increase of 33.1% from the third quarter of 2006. Net written premiums increased 36.5%;

- Loss ratio of 23.1% and a combined ratio of 44.0%;

- Total annualised investment return of 7.7% for the third quarter, including net investment income, realised gains and losses, and unrealised gains and losses;

- Net income after tax of $105.2 million, or $0.51 diluted earnings per share.

Financial highlights for the nine months to 30 September 2007:

- Fully converted book value per share grew 22.0% year to date 2007, bringing the rolling 12 month growth in fully converted book value per share to 29.5%;

- Gross written premiums of $598.8 million, an increase of 40.2% from the first nine months of 2006. Net written premiums increased 48.4%;

- Loss ratio of 26.8% and a combined ratio of 49.2%;

- Total annualised investment return of 6.0% for the nine months to 30 September 2007, including net investment income, realised gains and losses, and unrealised gains and losses;

- Net income after tax of $275.6 million for the nine months to 30 September, 2007, or $1.34 diluted earnings per share.

The Company also announces that on 29 October 2007 its Board of Directors approved a share repurchase program (the "Repurchase Program") which authorises the Company to repurchase its own shares by way of market purchases, tender offers, accelerated purchase programs or privately negotiated transactions, up to an aggregate purchase price of $100 million.

Richard Brindle, Group Chief Executive Officer, commented:

“Lancashire had an excellent quarter, our best yet. Fully converted book value per share grew 7.9% in the quarter, bringing the year to date growth to 22.0%. At the start of the year, we believed we could deliver a return on equity of 20 to 25%; we are now increasing estimated 2007 return on equity to between 26 and 29%. Net income in the third quarter of 2007 increased exactly 100% from the same quarter in 2006, and net income for 2007 to date increased exactly 200% from the same period last year.

“In 2007 to date, despite two land-falling category five Atlantic hurricanes, insured losses in the United States from natural catastrophes have been lower than average. In the rest of the world however, this year has seen a higher than normal frequency of catastrophe losses. We have not incurred major losses from these events, which has helped produce a 2007 loss ratio of 26.8% to date. A large driver is our strategy to focus on a diversified insurance portfolio, rather than a narrow focus on natural catastrophe business. We are pleased to report that all segments of our business have generated strong underwriting profits in 2007.

“Rates are softening, a little faster than anticipated. Market cycles are inevitable but unpredictable. Rather than second-guess the timing of events, or lack of events, our strategy is to stay nimble so we can react to a market which is constantly changing. From an operational standpoint we do this by keeping our infrastructure tight and our underwriting centralised. We will react quickly when new opportunities arise, and move equally quickly when they diminish. From a capacity standpoint, we do this by adopting flexible capital strategies, recognising that outside factors can quickly and materially alter capital needs. By remaining a nimble company and paying close attention to all aspects of cycle management, we believe we can generate an attractive return for shareholders over extended periods of time.

“In a softening market, industry returns gradually fall until capacity reaches an appropriate level. We have been clear in our strategy. If underwriting opportunities decrease, Lancashire will reduce its capacity to an appropriate level. Our Board of Directors has today authorised a $100 million share repurchase program. We will make a further assessment on capital requirements nearer the end of the year. Should rate softening continue, we expect our 2008 portfolio will require less capital than we currently have. In addition to the $100 million share repurchase program, we would also anticipate returning at least 50% of the profits realised in 2007 back to shareholders via a single substantial dividend. We anticipate share repurchases and significant dividends to become recurring weapons in Lancashire’s arsenal of techniques for managing capital effectively in a softening market. We term this latter aspect of capital management ‘strategic dividends’. Strategic dividends are in keeping with our philosophy of nimbleness, affording us flexibility in tailoring our capital needs while at the same time generating an attractive yield to investors. We will continually explore all methods of capital management as appropriate.”

Underwriting results

Gross written premiums increased 33.1% in the third quarter of 2007 compared to the same period in 2006. In 2007 to date, gross written premiums increased 40.2% compared to the first nine months of 2006. The main drivers of the growth in 2007 premium written compared to 2006 have been due to strategic changes within Lancashire, primarily the opening of the UK operating platform, which began underwriting in late 2006, which itself led to a substantial increase in the broker submission count in our second trading year. These structural benefits more than offset rate reductions, leading to year-on-year premium growth. Moving into the fourth quarter of 2007 and into 2008, while rates and terms in many classes remain good, it is predicted that continued rate softening will ultimately result in premium written declining compared to prior periods.

Relatively little reinsurance is purchased in the third quarter. For the year to date, the amount of premium ceded was slightly higher than 2006, although as a ratio of gross written premium, ceded premium was lower at 13.7% in 2007 compared to 18.5% in 2006. Net written premiums increased 36.5% in the third quarter of 2007 compared to the third quarter of 2006, and increased 48.4% year to date over the same period in 2006. Sirocco Re, the energy business sidecar sponsored by Lancashire in 2006, is not being renewed for 2008.

Net earned premiums as a proportion of net written premiums were 114.2% in the third quarter of 2007, and 87.6% in the nine months to 30 September 2007.

The loss ratios of 23.1% and 26.8% for the three and nine months to 30 September 2007, respectively, reflect a very good underwriting performance in all segments.

Investments

Net investment income was $20.9 million for the third quarter, an increase of 52.6% over the third quarter of 2006. Net investment income was $56.2 million in the nine months to 30 September 2007, an increase of 48.3% over the same period in 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 realised gains and losses and net unrealised gains and losses, was $33.0 million in the quarter and $68.5 million for the year to date. Total investment return was higher than net investment income due primarily to volatile but strong fixed income markets in the third quarter, offset by a relatively weak equity market compared to earlier in the year.

Lancashire’s strategy to maintain a short duration and high credit quality investment portfolio remains unchanged. The portfolio contains no sub-prime securities. All securitised holdings are either government or agency securities or are rated AAA.

Capital

At 30 September 2007, total capital was $1.561 billion, comprising shareholders’ equity of $1.430 billion and $131 million of long-term debt. Leverage was 8.4%.

Outlook

Following strong profits for the year to date, our estimated growth in fully converted book value per share is revised upwards from the previous guidance of 20 to 25%, to a new range of 26 to 29%, assuming a normal level of losses. 2007 gross premiums written are expected to be at least 20% higher than 2006. This is unchanged from previous guidance.

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

Investor Presentation and Earnings Call

UPDATE

There will be an investor conference call on the results at 11:30 UK time / 07:30 EST on Tuesday 30 October 2007. This call will be hosted by Richard Brindle, Chief Executive Officer; Neil McConachie, Chief Financial Officer; and Simon Burton, Deputy Chief Executive Officer. The call can be accessed by dialing +44 (0) 207 806 1950/ +1 718 354 1385 with the passcode 1445892.

A replay facility will be available for two weeks until Tuesday 13 November. The dial in number for the replay facility is +44 (0) 20 7806 1970 / +1 718 354 1112 and the passcode is 1445892#.

A replay facility can also be accessed at www.lancashiregroup.com .

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

Consolidated Balance Sheet
(Unaudited) 30 September 2007

	September 30, 2007	December 31, 2006
	$m	$m
assets		
cash and cash equivalents	539.5	400.1
accrued interest receivable	10.4	7.5
investments		
- fixed income securities		
- available for sale	1,254.2	896.3
- at fair value through income	22.6	-
- equity securities, available for sale	73.2	70.3
- other investments	7.2	11.5
reinsurance assets		
- unearned premium on premium ceded	48.0	19.1
- reinsurance recoveries	1.5	-
deferred acquisition costs	61.0	51.5
inwards premium receivable from insureds and cedants	176.7	173.7
investment in associate	21.7	23.2
other assets	34.2	9.5
total assets	2,250.2	1,662.7
liabilities		
insurance contracts		
- loss and loss adjustment expenses	158.7	39.1
- unearned premiums	418.6	325.7
- other payables	7.0	3.6
amounts payable to reinsurers	29.3	2.4
deferred acquisition costs ceded	6.6	2.5
other payables	69.4	23.2
long-term debt	130.9	128.6
total liabilities	820.5	525.1
shareholders' equity		
share capital	98.0	97.9
share premium	46.0	33.6
contributed surplus	848.1	849.7
fair value and other reserves	14.3	8.7
retained earnings	423.3	147.7
total shareholders' equity attributable to equity shareholders	1,429.7	1,137.6
total liabilities and shareholders' equity	2,250.2	1,662.7
basic book value per share	$7.30	$5.81
fully converted book value per share	$6.93	$5.68

Consolidated Income Statement
(Unaudited) to 30 September 2007

	Quarter 3 2007 $m	Quarter 3 2006 $m	Year to date 2007 $m	Year to date 2006 $m
gross premiums written	147.3	110.7	598.8	427.0
outwards reinsurance premiums	(6.8)	(7.8)	(82.2)	(78.8
net premiums written	140.5	102.9	516.6	348.2
change in unearned premiums	35.5	(6.4)	(92.9)	(247.8)
change in unearned premiums on premium ceded	(15.5)	(16.3)	28.9	44.1
net premiums earned	160.5	80.2	452.6	144.5
net investment income	20.9	13.7	56.2	37.9
net realised gains (losses) and impairments	2.3	2.1	6.7	(1.3)
share of profit of associate	1.1	2.0	3.9	2.0
net foreign exchange gains (losses)	1.7	(0.1)	3.5	(1.2)
net other investment income (losses)	(2.0)	-	(2.5)	-
total net revenue	184.5	97.9	520.4	181.9
insurance losses and loss adjustment expenses	38.1	12.8	122.9	20.2
insurance losses and loss adjustment expenses recoverable	(1.0)	-	(1.5)	-
net insurance acquisition expenses	21.2	11.7	62.4	19.3
equity based compensation	4.4	5.5	10.8	16.1
other operating expenses	12.3	11.2	39.1	24.8
total expenses	75.0	41.2	233.7	80.4
profit before tax and finance costs	109.5	56.7	286.7	101.5
finance costs	4.4	4.1	10.5	9.6
profit before tax	105.1	52.6	276.2	91.9
tax	(0.1)	-	0.6	-
profit after tax for the period attributable to equity shareholders	105.2	52.6	275.6	91.9
net loss ratio	23.1%	16.0%	26.8%	14.0%
net acquisition cost ratio	13.2%	14.6%	13.8%	13.4%
administrative expense ratio	7.7%	14.0%	8.6%	17.2%
combined ratio	44.0%	44.6%	49.2%	44.6%
basic earnings per share	$0.54	$0.27	$1.41	$0.47
diluted earnings per share	$0.51	$0.26	$1.34	$0.46
change in fully converted book value per share	7.9%	5.9%	22.0%	10.5 %

Consolidated Cash Flow Statement
(Unaudited) 30 September 2007

	nine months 2007	twelve months 2006
	$m	$m
cash flows from operating activities		
profit before interest and tax	229.1	116.4
interest income	55.6	53.6
interest expense	(8.5)	(10.6)
tax	(0.6)	(0.2)
depreciation	1.0	0.6
amortisation of debt securities	(0.8)	(1.2)
employee benefit expense	10.8	22.5
foreign exchange	(2.4)	1.9
share of profit of associate	(3.9)	(3.2)
net unrealised losses (gains) on derivative financial instruments	2.3	(1.8)
net realised (gains) and impairments on investments	(6.7)	(0.8)
net fair value losses on investments at fair value through income	0.2	-
unrealised losses on swaps	0.1	0.9
accrued interest receivable	(2.9)	(5.6)
reinsurance assets		
- unearned premium on premium ceded	(28.9)	(19.1)
- reinsurance recoveries	(1.5)	-
deferred acquisition costs	(9.5)	(51.0)
other receivables	(23.4)	(6.0)
inwards premium receivable from insureds and cedants	(1.2)	(171.4)
deferred tax asset	(1.0)	(0.8)
insurance contracts		
- losses and loss adjustment expenses	118.7	39.1
- unearned premiums	92.9	323.1
- other payables	3.4	3.6
amounts payable to reinsurers	26.9	2.4
deferred acquisition costs ceded	4.1	2.5
other payables	45.3	18.6
corporation tax payable	0.8	1.0
accrued interest payable	-	-
net cash flows from operating activities	**499.9**	**314.5**
cash flows from investing activities		
purchase of property, plant and equipment	(1.3)	(2.6)
investment in associate	-	(20.0)
dividends received from associate	5.4	-
purchase of debt securities	(1,628.7)	(2,086.1)
purchase of equity securities	(21.9)	(76.1)
proceeds on maturity and disposal of debt securities	1,252.4	1,185.6
proceeds on disposal of equity securities	26.3	20.9
net purchase of other investments	3.3	(9.7)
net cash flows used in investing activities	**(364.5)**	**(988.0)**
net increase (decrease) in cash and cash equivalents	**135.4**	**(673.5)**
cash and cash equivalents at beginning of period	400.1	1,072.4
effect of exchange rate fluctuations on cash and cash equivalents	4.0	1.2
cash and cash equivalents at end of period	**539.5**	**400.1**

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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