

LANCASHIRE HOLDINGS LIMITED

Lancashire reports 2007 Return on Equity of 31.7% and Combined Ratio of 46.3%

Hamilton, Bermuda, 13 February 2008

Lancashire Holdings Limited (“Lancashire” or “the Company”) today announces its results for the fourth quarter of 2007 and the twelve month period ended 31 December 2007.

Lancashire produced an exceptional result in 2007, generating net income of \$390.9 million and returning \$339.3 million of capital to shareholders. Fully converted book value per share was \$6.38 at 31 December 2007, or approximately 325 pence at the close of business exchange rate on 12 February 2008.

Financial highlights for the fourth quarter of 2007:

- Return on equity of 7.9%, measured as the growth in fully converted book value per share plus dividends;
- Gross written premiums of \$154.3 million, a decrease of 22.5% from the fourth quarter of 2006. Net written premiums decreased 24.6%;
- Loss ratio of 15.7% and a combined ratio of 38.1%;
- Total annualised investment return of 7.4% for the fourth quarter, including net investment income, realised gains and losses, and unrealised gains and losses;
- Net income after tax of \$115.3 million, or \$0.57 diluted earnings per share.

Financial highlights for the twelve months to 31 December 2007:

- Return on equity of 31.7%, measured as the growth in fully converted book value per share plus dividends;
- Gross written premiums of \$753.1 million, an increase of 20.3% from 2006. Net written premiums increased 21.8%;
- Loss ratio of 23.9% and a combined ratio of 46.3%;
- Total investment return of 6.4% for the twelve months to 31 December 2007, including net investment income, realised gains and losses, and unrealised gains and losses;
- Net income after tax of \$390.9 million for the twelve months to 31 December 2007, or \$1.91 diluted earnings per share.

Richard Brindle, Group Chief Executive Officer, commented:

“In only our second year of operations, Lancashire has produced a remarkable set of results. To have achieved a return of 31.7% for our shareholders is testament to our people, our risk management and to our disciplined and diversified underwriting strategy. The success in 2007 was led by our exceptional underwriting result, evident in a combined ratio of 46.3%. Prior year reserve releases in 2007 were \$4.4 million, benefiting the ratio by 0.7%. Our risk appetite on investments is low and that was the correct approach in hazardous markets. Against this background we are pleased to have achieved a total investment return of 6.4%. Finally, we were delighted to return \$339.3 million back to our shareholders via share repurchases and dividends, fulfilling our promise to manage capital in line with the underwriting cycle.

“The market is softening across the board; nonetheless there is plenty of attractive business in the majority of the lines we write. Lancashire writes direct specialty short-tail insurance, combined with a small amount of reinsurance. Our approach lends itself to profitable underwriting in softening markets where risk selection is paramount. As we progress through 2008, absent a sudden turn in the cycle, we expect that our premiums will decline from 2007. However we are well positioned to write a profitable book of business in 2008. We have no plans to compensate by venturing into areas we do not understand; a dangerous strategy indeed that is all too common in this industry.

“Lancashire’s investment approach will continue to be defensive. I am very pleased to say we believe we have zero insurance exposure from the credit crisis, a debacle that appears to have very serious financial implications for the insurance industry. Indeed, the full extent of the implications are yet to be revealed. We made the decision to exit all non-agency structured products, which was successfully executed in an orderly manner, and as previously disclosed we have no exposure to sub-prime. Lancashire has positioned both its insurance and investment portfolios appropriately for the current environment and we are confident we can produce a good return for our shareholders in what may be more challenging times ahead.”

Underwriting results

Gross written premiums decreased 22.5% in the fourth quarter of 2007 compared to the same period in 2006. In 2007 as a whole, gross written premiums increased 20.3% compared to 2006. In the fourth quarter the decrease in premium was due to year on year rate reductions in certain classes, particularly aviation AV52. Overall, the growth in annual premium written was due to our fully operational platform in our second year including our UK operating platform, which began underwriting in late 2006.

A de minimus amount of reinsurance was purchased in the fourth quarter. During 2007, a greater amount of premium was ceded than in 2006, partly reflecting the growth in written premium. Net written premiums decreased 24.6% in the fourth quarter of 2007 compared to the fourth quarter of 2006, but increased in 2007 compared to 2006. The business of Sirocco Re, the energy sidecar sponsored by Lancashire in 2006, was commuted effective 31 December. A profit commission received from Sirocco of \$7.8 million was recognized in acquisition costs in the fourth quarter.

Net earned premiums as a proportion of net written premiums were 105.6% in the fourth quarter of 2007, and 91.7% for the year.

The loss ratios of 15.7% and 23.9% for the three and twelve months to 31 December 2007, respectively, represent an exceptional underwriting performance in all segments.

Investments

Net investment income was \$22.2 million for the fourth quarter, an increase of 36.2% over the fourth quarter of 2006. Net investment income was \$78.4 million in the twelve months to 31 December 2007, an increase of 44.6% 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 change in unrealised gains and losses, was \$30.6 million in the quarter and \$96.6 million for the year. Total investment return boosted by the 8.9% gain from the equity portfolio for the year.

At 31 December 2007 the fixed income portfolio plus managed cash had a duration of 1.4 years and a credit quality of AA+. The portfolio was comprised of 58.6% fixed income, 4.1% equities and 37.3% cash.

Capital

At 31 December 2007, total capital was \$1.35 billion, comprising shareholders' equity of \$1.216 billion and \$132 million of long-term debt. Leverage was 10%. Shareholders' equity at the year end is net of \$100.2 million of share repurchases during the fourth quarter and the strategic dividend of \$239.1 million.

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

Earnings Call

There will be an investor and analyst conference call on the results at 12:00 UK time / 07:00 EST on Thursday 14 February 2008. This call will be hosted by Richard Brindle, Chief Executive Officer, Simon Burton, Deputy Chief Executive Officer and Neil McConachie, Chief Financial Officer.

The call can be accessed by dialing +44 (0) 207 806 1956/ +1 718 354 1388 with the passcode 5204778. A replay facility will be available for two weeks until Wednesday 27 February 2008. The dial in number for the replay facility is +44 (0) 20 7806 1970 / +1 718 354 1112 and the passcode is 5204778#.

The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access

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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)

	<u>december 31, 2007</u>	<u>december 31, 2006</u>
	\$m	\$m
assets		
cash and cash equivalents	737.3	400.1
accrued interest receivable	9.8	7.5
investments		
- fixed income securities		
- available for sale	1,069.7	896.3
- at fair value through income	23.5	-
- equity securities, available for sale	71.6	70.3
- other investments	4.4	11.5
reinsurance assets		
- unearned premium on premium ceded	19.6	19.1
- reinsurance recoveries	3.6	-
- other receivables	8.2	-
deferred acquisition costs	57.8	51.5
inwards premium receivable from insureds and cedants	198.2	173.7
investment in associate	22.9	23.2
other assets	8.1	9.5
total assets	<u>2,234.7</u>	<u>1,662.7</u>
liabilities		
insurance contracts		
- loss and loss adjustment expenses	179.6	39.1
- unearned premiums	381.9	325.7
- other payables	16.5	5.2
amounts payable to reinsurers	5.7	0.8
deferred acquisition costs ceded	3.0	2.5
other payables	300.1	23.2
long-term debt	132.3	128.6
total liabilities	<u>1,019.1</u>	<u>525.1</u>
shareholders' equity		
share capital	91.1	97.9
share premium	49.5	33.6
contributed surplus	754.8	849.7
fair value and other reserves	20.7	8.7
dividends	(239.1)	-
retained earnings	538.6	147.7
total shareholders' equity attributable to equity shareholders	<u>1,215.6</u>	<u>1,137.6</u>
total liabilities and shareholders' equity	<u>2,234.7</u>	<u>1,662.7</u>
basic book value per share	\$6.67	\$5.81
fully converted book value per share	\$6.38	\$5.68

consolidated income statement

(unaudited)

	quarter 4 2007 \$m	quarter 4 2006 \$m	full year 2007 \$m	full year 2006 \$m
gross premiums written	154.3	199.0	753.1	626.0
outwards reinsurance premiums	(4.1)	0.3	(86.3)	(78.5)
net premiums written	150.2	199.3	666.8	547.5
change in unearned premiums	36.8	(75.3)	(56.1)	(323.1)
change in unearned premiums on premium ceded	(28.4)	(25.0)	0.5	19.1
net premiums earned	158.6	99.0	611.2	243.5
net investment income	22.2	16.3	78.4	54.2
net realised gains (losses) and impairments	2.4	2.0	9.1	0.8
share of profit of associate	2.3	1.2	6.2	3.2
net foreign exchange gains (losses)	(1.2)	(0.1)	2.3	(1.3)
net other investment income (losses)	(0.4)	1.8	(2.9)	1.8
total net revenue	183.9	120.2	704.3	302.2
insurance losses and loss adjustment expenses	27.1	18.8	150.0	39.1
insurance losses and loss adjustment expenses recoverable	(2.2)	-	(3.7)	-
net insurance acquisition expenses	14.1	15.6	76.5	34.9
equity based compensation	3.6	6.4	14.4	22.5
other operating expenses	21.4	9.1	60.5	33.9
total expenses	64.0	49.9	297.7	130.4
profit before tax and finance costs	119.9	70.3	406.6	171.8
finance costs	4.2	2.7	14.7	12.3
profit before tax	115.7	67.6	391.9	159.5
tax	0.4	0.2	1.0	0.2
profit after tax	115.3	67.4	390.9	159.3
net loss ratio	15.7%	19.0%	23.9%	16.1%
net acquisition cost ratio	8.9%	15.8%	12.5%	14.3%
administrative expense ratio	13.5%	9.2%	9.9%	13.9%
combined ratio	38.1%	44.0%	46.3%	44.3%
basic earnings per share	\$0.61	\$0.34	\$2.01	\$0.81
diluted earnings per share	\$0.57	\$0.33	\$1.91	\$0.79
change in fully converted book value per share	7.9%	6.2%	31.7%	17.4%

consolidated cash flow statement

(unaudited)

	twelve months 2007 \$m	twelve months 2006 \$m
cash flows from operating activities		
profit after tax	390.9	159.3
depreciation	1.4	0.6
amortisation of debt securities	(0.7)	(1.2)
employee benefit expense	14.4	22.5
foreign exchange	(3.1)	1.8
share of profit of associate	(6.2)	(3.2)
net unrealised losses (gains) on derivative financial instruments	3.3	(1.8)
net realised (gains) and impairments on investments	(9.1)	(0.8)
net fair value losses on investments at fair value through income	(0.4)	-
unrealised losses on swaps	1.3	0.9
accrued interest receivable	(2.3)	(5.6)
reinsurance assets		
- unearned premium on premium ceded	(0.5)	(19.1)
- reinsurance recoveries	(3.5)	-
- other receivables	(8.2)	-
deferred acquisition costs	(6.3)	(51.0)
other receivables	2.4	(6.0)
inwards premium receivable from insureds and cedants	(23.8)	(171.4)
deferred tax asset	(1.2)	(0.8)
insurance contracts		
- losses and loss adjustment expenses	140.0	39.1
- unearned premiums	56.2	323.1
- other payables	11.3	3.6
amounts payable to reinsurers	4.9	2.4
deferred acquisition costs ceded	0.5	2.5
other payables	25.8	18.6
corporation tax payable	(0.2)	1.0
net cash flows from operating activities	586.9	314.5
cash flows used in investing activities		
purchase of property, plant and equipment	(1.3)	(2.6)
investment in associate	-	(20.0)
dividends received from associate	6.5	-
purchase of debt securities	(2,143.3)	(2,086.1)
purchase of equity securities	(30.9)	(76.1)
proceeds on maturity and disposal of debt securities	1,960.4	1,185.6
proceeds on disposal of equity securities	36.9	20.9
net purchase of other investments	5.1	(9.7)
net cash flows used in investing activities	(166.6)	(988.0)
cash flows used in financing activities		
shares repurchased	(89.3)	-
net cash flows used in financing activities	(89.3)	-
net increase (decrease) in cash and cash equivalents	331.0	(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	6.2	1.2
cash and cash equivalents at end of period	737.3	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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