LANCASHIRE HOLDINGS LIMITED

Fully converted book value grows 3.1% in Q2 2008, 8.3% year to date

Combined ratio 72.3% in Q2 2008, 66.4% year to date

Hamilton, Bermuda, 5 August 2008

Lancashire Holdings Limited ("Lancashire" or "the Company") today announces its results for the second quarter of 2008 and the six month period ended 30 June 2008.

Despite a higher than normal frequency and severity of industry losses, together with weakening investment markets, Lancashire has grown book value per share 8.3% in the first half of 2008 – an excellent result.

Financial highlights for the second quarter of 2008:

- Return on equity of 3.1%, measured as the growth in fully converted book value per share plus dividends;
- Gross written premiums of $196.7 million. Net written premiums of $182.4 million;
- Loss ratio of 45.7% and a combined ratio of 72.3%;
- Total annualised investment return of 0.5%, including net investment income, realised gains and losses, and unrealised gains and losses;
- Net income after tax of $51.2 million, or $0.27 diluted earnings per share;
- Repurchased 5.683 million shares at an average cost of $6.20, or approximately 316 pence.

Financial highlights for the first half of 2008:

- Return on equity of 8.3%, measured as the growth in fully converted book value per share plus dividends. Compound annual return on equity since inception of 21.4%;
- Gross written premiums of $383.4 million. Net written premiums of $324.3 million;
- Loss ratio of 42.1% and a combined ratio of 66.4%;
- Total annualised investment return of 2.7%, including net investment income, realised gains and losses, and unrealised gains and losses;
- Net income after tax of $135.8 million, or $0.72 diluted earnings per share.

Richard Brindle, Group Chief Executive Officer, commented:

"I am delighted to report another very strong performance by Lancashire. Following our 5.0% growth in book value per share in the first quarter of 2008 we have followed with a further 3.1% in the second quarter, compounding to a total of 8.3% for the first half of a very difficult year for the property and casualty sector. We are very proud that our cautious approach in a softening market has produced a combined ratio of 72.3% in the second quarter, and 66.4% for the year to date.

As expected, and as previously advised, premiums in the second quarter were significantly lower than the prior year as we took a disciplined stance on renewals. While a significant proportion of deals renewed at acceptable rates, we stuck to the Lancashire strategy of turning away business which doesn't meet our return requirements. Much of the catastrophe exposed energy accounts renew in the second quarter and pricing was materially lower than in 2007. Despite this, we are still finding plenty of attractive deals.

The three months to 30 June 2008 saw a continuation of the higher than normal frequency and severity of industry losses experienced in the first quarter, most notably in the property risk and property catastrophe classes. Notable industry losses in the second quarter were the fire at Universal Studios in California, with an estimated loss of over half a billion dollars and a string of property catastrophe losses estimated at over six billion dollars in total. There were also a number of significant energy losses totaling approximately one billion dollars. As was the case in the first quarter, Lancashire successfully avoided most of the material events in Q2, restricting exposure to a modest participation on the Universal loss and to a small number of other property and energy events. Our net loss ratio in the second quarter was 45.7% or 47.9% excluding the small impact of prior year positive development. It is worth noting that our reported loss ratio reflects a strong accident year performance which is not significantly Impacted by prior period reserve releases.

We constantly examine sectors on a micro level and adjust our tactics accordingly. Between a combination of underwriting discipline, nimble repositioning of our focus, and a relatively normal loss environment, we are confident Lancashire can continue to produce healthy profits in a softening market."

Neil McConachie,
Chief Financial Officer and Chief Risk Officer, commented:

"Despite negative returns in bond and equity markets, Lancashire's highly conservative investment portfolio has produced a positive total return in the second quarter of 2008. This follows a strong return in the first quarter. Our investment strategy remains the same: "Rule number one: Don't lose your money". We are doubly pleased to have maintained that philosophy in 2008. Not only have we reduced the downside investment risk more than most - we have generated a better return so far as well. We do, however, anticipate that investment returns will remain low for the rest of the year."

Underwriting results

Gross written premiums decreased by 27.4% in the second quarter of 2008 compared to the same period in 2007. In 2008 to date, gross written premiums decreased by 15.1% compared to the first six months of 2007.

The decline in written premiums, both for the quarter and the year to date, is largely attributable to significant reductions in the Gulf of Mexico energy account. This has mostly been driven by inadequate pricing. Gross premiums written are lower in most classes, reflecting the broad softening of pricing across the insurance and reinsurance markets. Renewal price rates in 2008 compared to 2007 in the major sectors written by Lancashire are as follows: Property 88.0%; Energy 79.7%; Marine 95.3%; Aviation (AV52 only) 87.6%; Overall 85.7%.

Significantly less premium was ceded in the second quarter of 2008 compared to the second quarter of 2007. Ceded premium fell from $69.3 million to $14.3 million. For the year to date, ceded premium reduced from $75.4 million in the six months to 30 June 2007 to $59.1 million for the same period in 2008. In 2007, a large proportion of the total reinsurance program was protection against natural disasters, most commonly for Atlantic hurricanes. In 2008, less reinsurance was purchased for natural catastrophe events. The quota share cession to the Lancashire sponsored energy sidecar, Sirocco Re, was also cancelled at the end of 2007. These reductions were partially offset by an increase in reinsurance purchased to mitigate losses from events other than natural disasters, most of which was purchased in the three months to 31 March 2008.

Net written premium decreased 9.5% and 13.8% for the quarter and year to date, respectively, compared to the same periods in 2007. This was chiefly due to lower gross written premiums, offset somewhat by lower purchases of reinsurance.

Net earned premiums as a proportion of net written premiums were 81.4% in the second quarter of 2008 compared to 75.4% in the same period in 2007. Net earned premiums as a proportion of net written premiums were 97.9% in the six months to 30 June 2008 compared to 77.7% in the same period in 2007. The increases reflect that, after reaching the third year of operations, Lancashire has built a mature portfolio of business whereas in 2007 the portfolio was still in a growth phase.

The net loss ratio of 45.7% for the second quarter and 42.1% for the six months to 30 June 2008 represents a very good underwriting performance despite the unusually large number of industry losses. Net reserve releases were $3.3 million for the quarter and $6.5 million in 2008 to date. The positive net development in the second quarter was net of deterioration of $11.2 million experienced on one 2007 energy claim.

Investments

Net investment income was $12.9 million for the second quarter, a decrease of 30.6% from the second quarter of 2007. Net investment income was $30.6 million in the six months to 30 June 2008, a decrease of 13.3% over the same period in 2007. The decrease in net investment income is primarily due to lower yields on the bond portfolio. The lower yields were driven to a large extent by reductions in U.S. interest rates in the first quarter of 2008 together with the tactical decision to exit certain higher yielding fixed income classes, including all non-agency structured products, in the fourth quarter of 2007.

Total investment return, including net investment income, net realised gains and losses and net change in unrealised gains and losses, was $2.4 million in the quarter and $24.1 million for the year to date. Total investment return was negatively impacted in the quarter by weak bond and equity markets. Despite poor market returns in the second quarter and the six months to June 30, 2008, Lancashire achieved a positive result in each quarter. This was achieved by the strategy of holding an overweight position in cash and by maintaining a high quality, short duration bond portfolio with underweight allocations to structured products and the financial sector. The modest

Lancashire equity allocation has produced a negative absolute return but an excellent return relative to the benchmark. The equity portfolio was down 1.5% in the first half of 2008 versus a negative S&P 500 return of 11.9%.

At 30 June 2008 the fixed income portfolio plus managed cash had a duration of 1.3 years, a credit quality of AA+ and a market yield of 3.3%. The portfolio was comprised of 56.1% fixed income, 4.5% equities and 39.4% cash. Lancashire does not hold any alternative investments.

Capital

At 30 June 2008 total capital was $1.441 billion, comprising shareholders' equity of $1.306 billion and $134.9 million of long-term debt. Leverage was 9.4%.

Outlook

Lancashire aims to achieve a cross-cycle return of 13% above a risk free rate. This is unchanged from previous guidance.

Further detail of our 2008 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Investor Presentation and Earnings Call

There will be an investor conference call on the results at 15:30 UK time / 10:30 EST on Tuesday 5 August 2008. This call will be hosted by Richard Brindle, Chief Executive Officer; Simon Burton, Deputy Chief Executive; and Neil McConachie, Chief Financial Officer and Chief Risk Officer. The call can be accessed by dialing +44 (0)20 7138 0835/+1 718 354 1172 with the passcode 7927940.

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

A replay facility will be available for two weeks until Tuesday 19 August 2008. The dial in number for the replay facility is +44 (0)20 7806 1970/ +1 718 354 1112 and the passcode is 7927940#. 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 june 30, 2008	audited december 31, 2007
	$m	$m
assets		
cash and cash equivalents	764.7	737.3
accrued interest receivable	7.8	9.8
investments		
- fixed income securities		
- available for sale	1,022.5	1,069.7
- at fair value through income	20.9	23.5
- equity securities, available for sale	83.0	71.6
- other investments	4.0	4.4
reinsurance assets		
- unearned premium on premium ceded	38.6	19.6
- reinsurance recoveries	10.1	3.6
- other receivables	-	8.2
deferred acquisition costs	68.8	57.8
inwards premium receivable from insureds and cedants	226.0	198.2
investment in associate	-	22.9
other assets	29.7	8.1
total assets	2,276.1	2,234.7
liabilities		
insurance contracts		
- loss and loss adjustment expenses	304.6	179.6
- unearned premiums	407.6	381.8
- other payables	15.9	16.5
amounts payable to reinsurers	32.8	5.7
deferred acquisition costs ceded	4.3	3.1
other payables	70.3	300.1
long-term debt	134.9	132.3
total liabilities	970.4	1,019.1
shareholders' equity		
share capital	91.1	91.1
treasury shares	(35.5)	-
share premium	50.8	49.5
contributed surplus	754.8	754.8
fair value and other reserves	9.1	20.7
dividends	0.1	(239.1)
retained earnings	435.3	538.6
total shareholders' equity attributable to equity shareholders	1,305.7	1,215.6
total liabilities and shareholders' equity	2,276.1	2,234.7
basic book value per share	$7.39	$6.67
fully converted book value per share	$6.91	$6.38

consolidated income statement

(unaudited)

	quarter 2 2008 $m	quarter 2 2007 $m	ytd 2008 $m	ytd 2007 $m
gross premiums written	196.7	270.8	383.4	451.5
outwards reinsurance premiums	(14.3)	(69.3)	(59.1)	(75.4)
net premiums written	182.4	201.5	324.3	376.1
change in unearned premiums	(29.0)	(100.8)	(25.8)	(128.4)
change in unearned premiums on premium ceded	(4.9)	51.2	19.0	44.4
net premiums earned	148.5	151.9	317.5	292.1
net investment income/(losses)	12.9	18.6	30.6	35.3
net realised gains and impairments	(1.4)	2.6	6.1	4.4
share of profit (loss) of associate	(0.1)	1.5	(0.2)	2.8
net foreign exchange gains	-	0.4	0.3	1.8
net other investment gains/(losses)	0.5	(0.4)	(0.7)	(0.5)
total net revenue	160.4	174.6	353.6	335.9
insurance losses and loss adjustment expenses	73.1	52.8	140.0	84.8
insurance losses and loss adjustment expenses recoverable	(5.2)	(0.5)	(6.4)	(0.5)
net insurance acquisition expenses	24.5	20.9	50.5	41.2
equity based compensation	2.8	2.7	1.3	6.4
other operating expenses	15.0	12.8	26.7	26.8
total expenses	110.2	88.7	212.1	158.7
profit before tax and finance costs	50.2	85.9	141.5	177.2
finance costs	0.4	3.1	5.3	6.1
profit before tax	49.8	82.8	136.2	171.1
tax	(1.4)	0.3	0.4	0.7
profit after tax	51.2	82.5	135.8	170.4
net loss ratio	45.7%	34.4%	42.1%	28.9%
net acquisition cost ratio	16.5%	13.8%	15.9%	14.1%
administrative expense ratio	10.1%	8.4%	8.4%	9.2%
combined ratio	72.3%	56.6%	66.4%	52.2%
basic earnings per share	$0.28	$0.42	$0.75	$0.87
diluted earnings per share	$0.27	$0.40	$0.72	$0.83
change in fully converted book value per share	3.1%	5.4%	8.3%	13.0%

consolidated cash flow statement

	unaudited six months 2008 $m	unaudited six months 2007 $m	audited twelve months 2007 $m
cash flows from operating activities			
profit before tax	136.2	171.1	391.9
tax paid	(0.6)	-	(2.4)
depreciation	0.6	0.7	1.4
interest expense	5.1	5.6	11.6
interest and dividend income	(29.4)	(36.1)	(79.3)
amortisation of fixed income securities	(0.6)	(0.7)	(0.7)
employee benefit expense	1.3	6.4	14.4
foreign exchange	1.4	(1.3)	(3.1)
share of loss (profit) of associate	0.2	(2.8)	(6.2)
net unrealised losses on other investments	(6.1)	(4.4)	(9.1)
net realised gains and impairments on investments	(0.3)	0.8	3.3
net fair value losses on investments at fair value through income	1.0	(0.3)	(0.4)
unrealised loss on interest rate swaps	(0.4)	(0.9)	1.3
reinsurance assets			
- unearned premium on premium ceded	(19.0)	(44.4)	(0.5)
- reinsurance recoveries	(6.5)	(0.5)	(3.5)
- other receivables	8.1	-	(8.2)
deferred acquisition costs	(11.0)	(12.3)	(6.3)
other receivables	(22.9)	(6.3)	2.4
inwards premium receivable from insureds and cedants	(26.3)	(77.2)	(23.8)
insurance contracts			
- losses and loss adjustment expenses	124.2	82.7	140.0
- unearned premiums	25.8	128.4	56.2
- other payables	(0.6)	2.6	11.3
amounts payable to reinsurers	27.1	57.8	4.9
deferred acquisition costs ceded	1.2	4.6	0.5
other payables	18.0	(1.1)	25.8
net cash flows from operating activities	**226.5**	**272.4**	**521.5**
cash flows used in investing activities			
interest and dividends received	31.4	33.1	77.0
purchase of property, plant and equipment	(0.1)	(1.0)	(1.3)
dividends received from associate	22.7	4.6	6.5
purchase of fixed income securities	(1,416.1)	(942.5)	(2,143.3)
purchase of equity securities	(20.0)	(15.1)	(30.9)
proceeds on maturity and disposal of debt securities	1,459.8	595.4	1,960.4
proceeds on disposal of equity securities	8.6	23.0	36.9
net proceeds on other investments	0.7	2.1	5.1
net cash flows used in investing activities	**87.0**	**(300.4)**	**(89.6)**
cash flows used in financing activities			
interest paid	(5.3)	(5.6)	(11.6)
dividends paid	(238.2)	-	-
shares repurchased	(43.6)	-	(89.3)
net cash flows used in financing activities	**(287.1)**	**(5.6)**	**(100.9)**
net decrease in cash and cash equivalents	**26.4**	**(33.6)**	**331.0**
cash and cash equivalents at beginning of period	737.3	400.1	400.1
effect of exchange rate fluctuations on cash and cash equivalents	1.0	1.2	6.2
cash and cash equivalents at end of period	**764.7**	**367.7**	**737.3**

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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