LANCASHIRE HOLDINGS LIMITED

LANCASHIRE GROWS BOOK VALUE PER SHARE 7.5% IN 2008 COMBINED RATIO OF 86.3%

16 February 2009
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Company") today announces its results for the fourth quarter of 2008 and the twelve month period ended 31 December 2008.

Against a backdrop of significant industry losses and dramatic investment market turmoil, Lancashire has produced an excellent return for shareholders.

Financial highlights for the fourth quarter of 2008:

- Fully converted book value per share of $6.86 at 31 December 2008, compared to $6.33 at 30 September 2008, an increase of 8.4%;

- Gross and net written premiums of $130.1 million;

- Loss ratio of 11.5% and a combined ratio of 35.4%;

- Annualised total investment return of 8.9%, including net investment income, realised gains and losses, impairments, and change in unrealised gains and losses;

- Net operating profit of $98.3 million, or $0.55 diluted operating earnings per share; and

- Net profit after tax of $81.1 million, or $0.45 diluted earnings per share.

Financial highlights for the twelve months to 31 December 2008:

- Fully converted book value per share of $6.86 at 31 December 2008, compared to $6.38 at 31 December 2007, an increase of 7.5%;

- Compound annual return on equity since inception of 17.7%;

- Gross written premiums of $638.1 million. Net written premiums of $574.7 million;

- Loss ratio of 61.8% and a combined ratio of 86.3%;

- Total investment return of 3.1% including net investment income, realised gains and losses, impairments, and change in unrealised gains and losses;

- Net operating profit of $119.4 million, or $0.64 diluted operating earnings per share; and

- Net profit after tax of $97.5 million, or $0.53 diluted earnings per share.

Dividend Policy

Lancashire has approved the following dividend policy which will be stated in the Company's Annual Report and forthcoming prospectus. The prospectus will be issued ahead of our application for admission of the Company's shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities.

"Lancashire intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for shareholders. We will actively manage capital to achieve those aims. Capital management is expected to include the payment of a sustainable annual dividend, supplemented by special dividends from time to time. Dividends will be linked to past performance and future prospects. Under most scenarios, the annual dividend is not expected to reduce from one year to the next. Special dividends are expected to vary substantially in size and in timing."

Richard Brindle, Group Chief Executive Officer, commented:

"2008 was one of the toughest years that many of us have experienced in the insurance industry. To grow book value per share by 7.5% is a considerable achievement, and further proof if any were needed that our risk management has been thoroughly tested on both sides of the balance sheet. Lancashire has achieved an excellent combined ratio of 86.3% despite exposure to Hurricane Ike, one of the largest offshore and onshore market losses that the insurance industry has seen. We also achieved a very strong investment return. On Hurricanes Ike and Gustav, we originally forecast a net impact on our financial results of approximately $150 million and this estimate remains unchanged. These results are a great testament to our team.

Little has changed in the capital markets since our last report in October 2008; if anything conditions may have worsened. As we expected, it appears that investment losses in the fourth quarter have taken a further toll on the insurance industry's capacity. Importantly, unlike previous cycles, we do not expect to see a quick replenishment of lost capacity.

The market has undoubtedly turned. As in 2006, we expect the rate increases we have seen in January to gain momentum as the year progresses. Sections of the market are less than nimble and take some time to adjust their business plans to the new reality but the fundamental shift in the demand/supply equation is inescapable.

Looking forward, I can only reiterate that I believe we enter 2009 well placed to take advantage of some extraordinary opportunities. We are ready for the challenge."

Neil McConachie, Group Chief Financial Officer, commented:

"Our highly conservative investment strategy served us well in the fourth quarter, as it did throughout 2008. We made a healthy total investment return of 3.1%, while maintaining a low risk profile. We do not expect the investment markets to improve for some time to come. While we may tinker at the edges of our asset weightings, our primary goal remains the same: Don't lose your money.

As we head into a hardening market, we are in the fortunate position of doing so with a strong balance sheet. We continually analyse both the business opportunities ahead of us and our cost of capital. As things stand right now we believe we are carrying the appropriate level of capital and consequently do not plan to raise or return capital at this time. That said, our dividend policy going forward contemplates the payment of a recurring dividend. Absent unexpected circumstances, recurring dividends are likely to commence in the next 12 months.

Our application for admission of the Company's shares to the Official List and to trading on the London Stock Exchange is at an advanced stage."

Underwriting results

Gross written premiums decreased by 15.7% in the fourth quarter of 2008 compared to the same period in 2007. In 2008 as a whole, gross written premiums decreased by 15.3% compared to 2007.

The year on year reduction in written premiums was driven by most classes experiencing lower rates than in previous periods, and a corresponding greater proportion of submissions declined. However, there was some evidence of rate reductions reversing during the fourth quarter and an improvement in Lancashire's Renewal Price Index ("RPI") certainly versus the third quarter of 2008.

The reduction in premium income in the fourth quarter, year on year and excluding renewals where the timing was different from initial expectations, was largely driven by anticipated construction projects being cancelled or deferred as a result of the current economic climate. Lancashire's Q4 RPI, which considers both pricing and terms and conditions, shows the following renewal comparisons between the fourth quarter of 2008 and the same period in 2007: Property 100%; Energy 108%; Marine 99%; Aviation (AV52, aviation war and satellite only) 96%; Overall 101%.

January is a key renewal date for a number of specialist lines we underwrite. For the month of January we achieved an overall RPI for the group of 105%. We analyse our RPI by sector as follows: Property 104%; Energy 112%; Marine 113% and Aviation 100%. These figures do not include Gulf of Mexico energy business as this class did not have any renewed contracts in January.

No reinsurance was purchased in the fourth quarter of 2008 compared to $4.1 million in the fourth quarter of 2007. Ceded premium reduced from $86.3 million for 2007 to $63.4 million for 2008. Contributing factors were the reduction in the amount of energy Gulf of Mexico business written, with a corresponding impact on business ceded, and a reduction in the purchase of protection against natural catastrophes, including the commutation of the quota share cession to the Lancashire sponsored energy sidecar, Sirocco Re, at the end of 2007. This was partially offset by an increase in reinsurance purchased to mitigate losses from events other than natural catastrophes, most of which was purchased in the first quarter of 2008.

Net written premium decreased by 13.4% and 13.8% for the quarter and the full year, 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 109.1% in the fourth quarter of 2008 compared to 105.6% in the same period in 2007. Net earned premiums as a proportion of net written premiums were 105.7% for the full year 2008, compared to 91.7% for 2007. The increases reflect that, after reaching its 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 11.5% for the fourth quarter reflects a very quiet quarter for loss activity combined with some positive prior year development. The net loss ratio of 61.8% for the twelve months to 31 December 2008 represents a strong underwriting result despite above average industry risk losses and catastrophe losses. The net negative financial impact of Hurricanes Ike and Gustav on our 2008 results was $150.8 million and $2.1 million respectively. Net reserves experienced favourable prior year development of $12.5 million for the quarter and $28.6 million in 2008.

Investments

Net investment income was $13.4 million for the fourth quarter, a decrease of 39.6% from the fourth quarter of 2007. Net investment income was $59.5 million in the twelve months to 31 December 2008, a decrease of 24.1% 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 throughout 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, impairments and net change in unrealised gains and losses, was a gain of $37.9 million in the quarter and a positive return of $54.9 million for the year. Almost all of our modest allocation to equities was liquidated early in the fourth quarter. The fixed income portfolio performed well in relative terms in 2008 due to the strategy to maintain a high quality, short duration bond portfolio with significant holdings in cash, treasuries and agencies, by maintaining an underweight position in corporate bonds, and by avoiding non agency structured products.

At 31 December 2008 the fixed income portfolio plus managed cash had a duration of 1.8 years, a credit quality of AA+ and a market yield of 2.7%. Investment assets were comprised of 80.3% fixed income, 0.3% equities and 19.4% cash. Lancashire does not currently invest in hedge funds or other alternative investments.

Other operating expenses

Other operating expenses, excluding the cost of warrants and options, decreased by $12.8 million or 59.8% in the fourth quarter of 2008 compared to the same period in 2007. In 2008 other operating expenses decreased by $11.2 million or 18.5% from $60.5 million in 2007. The decreases are largely due to changes in bonus awards given the loss activity of the year. Employee compensation costs were 52.3% of other operating expenses compared to 63.5% in 2007.

Equity based compensation was $8.9 million in the fourth quarter of 2008 compared to $3.6 million in the same period last year. The fourth quarter includes a one off $5.5 million charge related to vesting conditions for certain performance warrants.

Capital

At 31 December 2008, total capital was $1.404 billion, comprising shareholders' equity of $1.273 billion and $130.8 million of long-term debt. Leverage was 9.3%. Total capital at 31 December 2007 was $1.348 billion.

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

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00 am EST on Monday 16 February 2009. The 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 1953 / +1 718 354 1387 with the passcode 6603024. 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 Monday 2 March 2009. The dial in number for the replay facility is +44 (0) 207 806 1970 / + 1 718 354 1112 and the passcode is 6603024#. The 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)

	december 31, 2008	december 31, 2007
	$m	$m
assets		
cash and cash equivalents	413.6	737.3
accrued interest receivable	10.1	9.8
investments		
- fixed income securities		
- available for sale	1,595.4	1,069.7
- at fair value through profit and loss	4.0	23.5
- equity securities, available for sale	5.8	71.6
- other investments	-	4.4
reinsurance assets		
- unearned premium on premium ceded	10.0	19.6
- reinsurance recoveries	42.1	3.6
- other receivables	3.2	8.2
deferred acquisition costs	60.9	57.8
inwards premium receivable from insureds and cedants	187.3	198.2
investment in associate	-	22.9
other assets	156.6	8.1
total assets	2,489.0	2,234.7
liabilities		
insurance contracts		
- loss and loss adjustment expenses	528.8	179.6
- unearned premiums	339.6	381.8
- other payables	17.6	16.5
amounts payable to reinsurers	2.0	5.7
deferred acquisition costs ceded	1.9	3.1
other payables	195.6	300.1
long-term debt	130.8	132.3
total liabilities	1,216.3	1,019.1
shareholders' equity		
share capital	91.1	91.1
treasury shares	(58.0)	-
share premium	60.1	49.5
contributed surplus	754.8	754.8
fair value and other reserves	27.6	20.7
dividends	0.1	(239.1)
retained earnings	397.0	538.6
total shareholders' equity attributable to equity shareholders	1,272.7	1,215.6
total liabilities and shareholders' equity	2,489.0	2,234.7
basic book value per share	$7.36	$6.67
fully converted book value per share	$6.86	$6.38

consolidated income statement
(unaudited)

	quarter 4 2008 $m	quarter 4 2007 $m	full year 2008 $m	full year 2007 $m
gross premiums written	130.1	154.3	638.1	753.1
outwards reinsurance premiums	-	(4.1)	(63.4)	(86.3)
net premiums written	130.1	150.2	574.7	666.8
change in unearned premiums	28.0	36.8	42.2	(56.1)
change in unearned premiums on premium ceded	(16.2)	(28.4)	(9.6)	0.5
net premiums earned	141.9	158.6	607.3	611.2
net investment income	13.4	22.2	59.5	78.4
net other investment income (losses)	(0.1)	(1.0)	0.1	(3.3)
net realised gains (losses) and impairments	(4.0)	2.4	(11.0)	9.1
net fair value gains (losses) on investments at fair value through profit and loss	0.5	0.6	(0.6)	0.4
share of profit (loss) of associate	-	2.3	(0.2)	6.2
net foreign exchange gains (losses)	(4.3)	(1.2)	(8.5)	2.3
total net revenue	147.4	183.9	646.6	704.3
insurance losses and loss adjustment expenses	18.4	27.1	418.8	150.0
insurance losses and loss adjustment expenses recoverable	(2.1)	(2.2)	(43.3)	(3.7)
net insurance acquisition expenses	25.2	14.1	99.6	76.5
equity based compensation	8.9	3.6	10.6	14.4
other operating expenses	8.6	21.4	49.3	60.5
total expenses	59.0	64.0	535.0	297.7
profit before tax and finance costs	88.4	119.9	111.6	406.6
finance costs	5.3	4.2	14.0	14.7
profit before tax	83.1	115.7	97.6	391.9
tax	2.0	0.4	0.1	1.0
profit after tax	81.1	115.3	97.5	390.9
net loss ratio	11.5%	15.7%	61.8%	23.9%
net acquisition cost ratio	17.8%	8.9%	16.4%	12.5%
administrative expense ratio	6.1%	13.5%	8.1%	9.9%
combined ratio	35.4%	38.1%	86.3%	46.3%
basic earnings per share	$0.47	$0.61	$0.55	$2.01
diluted earnings per share	$0.45	$0.57	$0.53	$1.91
change in fully converted book value per share	8.4%	7.9%	7.5%	31.7%

consolidated cash flow statement
(unaudited)

	twelve months 2008 $m	twelve months 2007 $m
cash flows from operating activities		
profit before tax	97.6	391.9
tax paid	(0.9)	(2.4)
depreciation	1.1	1.4
interest expense	9.8	11.6
interest and dividend income	(59.6)	(79.3)
amortisation of fixed income securities	-	(0.7)
equity based compensation	10.6	14.4
foreign exchange	9.4	(3.1)
share of loss (profit) of associate	0.2	(6.2)
net other investment (income) losses	(0.1)	3.3
net realised losses (gains) and impairments on investments	11.0	(9.1)
net fair value losses (gains) on investments at fair value through profit and loss	0.6	(0.4)
unrealised loss on interest rate swaps	2.7	1.3
reinsurance assets		
- unearned premium on premium ceded	9.6	(0.5)
- reinsurance recoveries	(38.5)	(3.5)
- other receivables	5.0	(8.2)
deferred acquisition costs	(3.1)	(6.3)
other receivables	(150.2)	2.4
inwards premium receivable from insureds and cedants	8.2	(23.8)
insurance contracts		
- losses and loss adjustment expenses	349.8	140.0
- unearned premiums	(42.2)	56.2
- other payables	2.0	11.3
amounts payable to reinsurers	(3.7)	4.9
deferred acquisition costs ceded	(1.2)	0.5
other payables	142.6	25.8
net cash flows from operating activities	**360.7**	**521.5**
cash flows used in investing activities		
interest and dividends received	59.3	77.0
purchase of property, plant and equipment	(0.2)	(1.3)
dividends received from associate	22.7	6.5
purchase of fixed income securities	(3,882.4)	(2,143.3)
purchase of equity securities	(31.9)	(30.9)
proceeds on maturity and disposal of fixed income securities	3,402.6	1,960.4
proceeds on disposal of equity securities	66.8	36.9
net proceeds on other investments	4.5	5.1
net cash flows used in investing activities	**(358.6)**	**(89.6)**
cash flows used in financing activities		
interest paid	(10.0)	(11.6)
dividends paid	(238.2)	-
shares repurchased	(68.3)	(89.3)
net cash flows used in financing activities	**(316.5)**	**(100.9)**
net (decrease) increase in cash and cash equivalents	**(314.4)**	**331.0**
cash and cash equivalents at beginning of year	737.3	400.1
effect of exchange rate fluctuations on cash and cash equivalents	(9.3)	6.2
cash and cash equivalents at end of period	**413.6**	**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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