LANCASHIRE HOLDINGS LIMITED

unaudited condensed interim consolidated financial statements

for the six months ended june 30, 2008

condensed interim consolidated income statement
for the six months ended june 30, 2008

	notes	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
gross premiums written	2	383.4	451.5	753.1
outwards reinsurance premiums	2	(59.1)	(75.4)	(86.3)
net premiums written		**324.3**	**376.1**	**666.8**
change in unearned premiums	2, 13	(25.8)	(128.4)	(56.1)
change in unearned premiums on premiums ceded	2, 13	19.0	44.4	0.5
net premiums earned		**317.5**	**292.1**	**611.2**
net investment income	3	30.6	35.3	78.4
net other investment income (losses)	3, 15	0.3	(0.8)	(3.3)
net realised gains and impairments	3	6.1	4.4	9.1
net fair value (losses) gains on investments at fair value through income	3	(1.0)	0.3	0.4
share of (loss) profit of associate	12	(0.2)	2.8	6.2
net foreign exchange gains		0.3	1.8	2.3
total net revenue		**353.6**	**335.9**	**704.3**
insurance losses and loss adjustment expenses	2, 13	140.0	84.8	150.0
insurance losses and loss adjustment expenses recoverable	2, 13	(6.4)	(0.5)	(3.7)
net insurance losses		**133.6**	**84.3**	**146.3**
insurance acquisition expenses	2, 4	54.4	45.6	95.6
insurance acquisition expenses ceded	2, 4	(3.9)	(4.4)	(19.1)
other operating expenses	5, 6	28.0	33.2	74.9
total expenses		**212.1**	**158.7**	**297.7**
results of operating activities		**141.5**	**177.2**	**406.6**
financing costs	14, 15	5.3	6.1	14.7
profit before tax		**136.2**	**171.1**	**391.9**
tax	8, 9	0.4	0.7	1.0
profit for the period attributable to equity shareholders		**135.8**	**170.4**	**390.9**
earnings per share				
basic	17	$0.75	$0.87	$2.01
diluted	17	$0.72	$0.83	$1.91

condensed interim consolidated balance sheet
as at june 30, 2008

	notes	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
assets				
cash and cash equivalents	10	764.7	367.7	737.3
accrued interest receivable		7.8	10.5	9.8
investments				
- fixed income securities				
- available for sale	11	1,022.5	1,220.1	1,069.7
- at fair value through income	11	20.9	17.5	23.5
- equity securities				
- available for sale	11	83.0	68.7	71.6
- other investments	11, 15	4.0	9.3	4.4
reinsurance assets				
- unearned premiums on premiums ceded	13	38.6	63.5	19.6
- reinsurance recoveries	13	10.1	0.5	3.6
- other receivables	13	-	-	8.2
deferred acquisition costs		68.8	63.8	57.8
other receivables		26.7	12.6	3.8
inwards premium receivable from insureds and cedants		226.0	252.1	198.2
corporation tax receivable	8	0.2	-	-
deferred tax asset	8, 9	1.0	1.2	2.0
investment in associate	12	-	21.4	22.9
property, plant and equipment		1.8	2.7	2.3
total assets		**2,276.1**	**2,111.6**	**2,234.7**
liabilities				
insurance contracts				
- losses and loss adjustment expenses	13	304.6	121.7	179.6
- unearned premiums	13	407.6	454.1	381.8
- other payables	13	15.9	6.2	16.5
amounts payable to reinsurers	13	32.8	60.8	5.7
deferred acquisition costs ceded		4.3	7.1	3.1
other payables	16	68.1	19.6	296.2
corporation tax payable	8	-	2.2	1.2
interest rate swap	15	1.8	-	2.2
accrued interest payable		0.4	0.4	0.5
long-term debt		134.9	129.3	132.3
total liabilities		**970.4**	**801.4**	**1,019.1**
shareholders’ equity				
share capital	16	91.1	97.9	91.1
treasury shares	16	(35.5)	-	-
share premium		50.8	40.2	49.5
contributed surplus	19	754.8	849.5	754.8
fair value and other reserves	3	9.1	4.5	20.7
retained earnings		435.4	318.1	299.5
total shareholders' equity attributable to equity shareholders		**1,305.7**	**1,310.2**	**1,215.6**
total liabilities and shareholders' equity		**2,276.1**	**2,111.6**	**2,234.7**

condensed interim consolidated statement of changes in shareholders' equity
for the six months ended june 30, 2008

	notes	share capital $m	treasury shares $m	share premium $m	contributed surplus $m	fair value and other reserves $m	retained earnings $m	total $m
balance as at january 1, 2008		**91.1**	**-**	**49.5**	**754.8**	**20.7**	**299.5**	**1,215.6**
profit for the period		-	-	-	-	-	135.8	135.8
change in investment unrealised gains (losses)	3	-	-	-	-	(11.8)	-	(11.8)
corporation tax	8	-	-	-	-	0.2	-	0.2
total recognised income for the period		**-**	**-**	**-**	**-**	**(11.6)**	**135.8**	**124.2**
shares repurchased	16	-	(35.5)	-	-	-	-	(35.5)
dividends on common shares	16	-	-	-	-	-	0.1	0.1
warrant issues - management and performance	6	-	-	(3.0)	-	-	-	(3.0)
option issues	6	-	-	3.8	-	-	-	3.8
restricted stock issues	6	-	-	0.5	-	-	-	0.5
balance as at june 30, 2008		**91.1**	**(35.5)**	**50.8**	**754.8**	**9.1**	**435.4**	**1,305.7**

	notes	share capital $m	treasury shares $m	share premium $m	contributed surplus $m	fair value and other reserves $m	retained earnings $m	total $m
balance as at january 1, 2007		**97.9**	**-**	**33.6**	**849.7**	**8.7**	**147.7**	**1,137.6**
profit for the period		-	-	-	-	-	170.4	170.4
change in investment unrealised gains (losses)	3	-	-	-	-	(4.2)	-	(4.2)
total recognised income for the period		**-**	**-**	**-**	**-**	**(4.2)**	**170.4**	**166.2**
issue of share capital	16	-	-	0.2	(0.2)	-	-	-
warrant issues - management and performance	6	-	-	4.8	-	-	-	4.8
option issues	6	-	-	1.6	-	-	-	1.6
balance as at june 30, 2007		**97.9**	**-**	**40.2**	**849.5**	**4.5**	**318.1**	**1,310.2**
profit for the period		-	-	-	-	-	220.5	220.5
change in investment unrealised gains (losses)	3	-	-	-	-	16.6	-	16.6
corporation tax	8	-	-	-	-	(0.4)	-	(0.4)
total recognised income for the period		**-**	**-**	**-**	**-**	**16.2**	**220.5**	**236.7**
issue of share capital	16	-	-	(0.2)	0.2	-	-	-
shares repurchased	16	(6.9)	-	-	(93.3)	-	-	(100.2)
dividends on common shares	16	-	-	-	-	-	(200.5)	(200.5)
dividend on warrants		-	-	-	-	-	(38.6)	(38.6)
warrant issues - management and performance	6	0.1	-	6.0	(1.6)	-	-	4.5
option issues	6	-	-	3.5	-	-	-	3.5
balance as at december 31, 2007		**91.1**	**-**	**49.5**	**754.8**	**20.7**	**299.5**	**1,215.6**

condensed interim consolidated cash flow statement
for the six months ended june 30, 2008

	notes	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
cash flows from operating activities				
profit before tax		136.2	171.1	391.9
tax paid	8	(0.6)	-	(2.4)
depreciation	7	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 benefits expense	5, 6	1.3	6.4	14.4
foreign exchange		1.4	(1.3)	(3.1)
share of loss (profit) of associate	12	0.2	(2.8)	(6.2)
net realised gains and impairments on investments	3	(6.1)	(4.4)	(9.1)
net realised and unrealised (gains) losses on other investments	3, 15	(0.3)	0.8	3.3
net fair value losses (gains) on investments at fair value through income	3	1.0	(0.3)	(0.4)
unrealised (gains) losses on interest rate swaps	15	(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	12	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 fixed income 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 from (used in) investing activities		**87.0**	**(300.4)**	**(89.6)**
cash flows used in financing activities				
interest paid		(5.3)	(5.6)	(11.6)
dividend paid	16	(238.2)	-	-
shares repurchased	16	(43.6)	-	(89.3)
net cash flows used in financing activities		**(287.1)**	**(5.6)**	**(100.9)**
net increase (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	10	**764.7**	**367.7**	**737.3**

summary of significant accounting policies
The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of Lancashire Holdings Limited ("LHL") and its subsidiaries' (collectively "the Group") condensed interim consolidated financial statements are those that the Group expects to apply for the year ending December 31, 2008. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended December 31, 2007.

basis of preparation
The Group's condensed interim consolidated financial statements are prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements.

All amounts, excluding share data or where otherwise stated, are in millions of United States ("U.S.") dollars.

There are no new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") standards adopted by or materially impacting the Group. IFRS 8, Operating Segments, which has been issued but is not yet effective, has not been early adopted by the Group. The Group continues to apply IAS 14, Segment Reporting. This Standard, and other IFRS and IFRIC standards issued but not yet effective, is not expected to have a material impact on the results and disclosures reported in the condensed interim consolidated financial statements.

The condensed interim consolidated balance sheet of the Group is presented in order of decreasing liquidity.

The following accounting policies have been adopted or amended as a result of new transactions entered into by the Group:

treasury shares
Treasury shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of treasury shares and any consideration paid or received is recognised directly in equity.

employee benefits - equity compensation plans
The Group operates a management warrant plan, an option plan and a restricted share scheme. The fair value of the equity instruments granted were estimated on the date of grant. The fair value is recognised as an expense pro-rata over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of warrants, options and restricted shares that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the condensed interim consolidated income statement, and a corresponding adjustment is made to shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the condensed interim consolidated income statement and the actual cost to the Group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

seasonality of interim operations

The Group underwrites worldwide short-tail insurance and reinsurance property risks, including risks exposed to natural catastrophes, some of which are subject to potential seasonal variation. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premium will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, among other factors.

A proportion of the Group's business is exposed to large catastrophe losses in North America, the Gulf of Mexico and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American and Asian hurricane seasons may materially impact the Group's loss experience during the latter half of the year. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, and from risk losses throughout the year.

risk disclosures

The Group's risk management and risk appetite remains broadly consistent with that disclosed in the consolidated financial statements for the year ended December 31, 2007. Interim disclosure on the risk profile and metrics of the Group's investment portfolio are provided below.

market risk

The allocation of the Group's investment portfolio across asset classes is as follows:

	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
available for sale			
- short-term investments	61.3	-	0.7
- U.S. treasuries	402.9	141.0	254.4
- other government bonds	15.6	-	-
- U.S. government agency debt	-	235.1	209.3
- asset backed securities	-	135.9	-
- U.S. government agency mortgage backed securities	261.2	269.2	241.1
- non-agency mortgage backed securities	-	186.6	7.0
- corporate bonds	269.9	229.3	343.3
- convertible debt securities	11.6	23.0	13.9
available for sale	**1,022.5**	**1,220.1**	**1,069.7**
at fair value through income			
- convertible debt securities	20.9	17.5	23.5
at fair value through income	**20.9**	**17.5**	**23.5**
total fixed income securities	**1,043.4**	**1,237.6**	**1,093.2**

	jun 30, 2008 %	jun 30, 2007 %	dec 31, 2007 %
available for sale			
- short-term investments	5.9	-	0.1
- U.S. treasuries	38.6	11.4	23.3
- other government bonds	1.5	-	-
- U.S. government agency debt	-	19.0	19.1
- asset backed securities	-	11.0	-
- U.S. government agency mortgage backed securities	25.0	21.7	22.0
- non-agency mortgage backed securities	-	15.1	0.7
- corporate bonds	25.9	18.5	31.4
- convertible debt securities	1.1	1.9	1.3
available for sale	**98.0**	**98.6**	**97.9**
at fair value through income			
- convertible debt securities	2.0	1.4	2.1
at fair value through income	**2.0**	**1.4**	**2.1**
total fixed income securities	**100.0**	**100.0**	**100.0**

The Group's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, economic environment and outlook, and exchange rates.

The impact on net unrealised gains and losses of a 10% fall in the value of the Group's equity portfolio at June 30, 2008 would be $8.3 million (June 30, 2007 - $6.9 million; December 31, 2007 - $7.2 million). Valuation risk in the equity portfolio is mitigated by diversifying the portfolio across sectors.

The majority of the Group's investments comprise fixed income securities. The fair value of the Group's fixed income portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed income investments would tend to rise and vice versa.

The sensitivity of the price of fixed income securities is indicated by its duration[1]. The greater a security's duration, the greater its percentage price volatility. The sensitivity of the Group's fixed income portfolio to interest rate movements is as follows:

immediate shift in yield (basis points)	**jun 30, 2008 %**	**jun 30, 2008 $m**	**jun 30, 2007 %**	**jun 30, 2007 $m**	**dec 31, 2007 %**	**dec 31, 2007 $m**
100	-2.2	(23.2)	-2.2	(27.2)	-2.2	(24.4)
75	-1.7	(17.4)	-1.6	(20.4)	-1.7	(18.3)
50	-1.1	(11.6)	-1.1	(13.6)	-1.1	(12.2)
25	-0.6	(5.8)	-0.6	(6.8)	-0.6	(6.1)
-25	0.6	5.8	0.6	6.8	0.6	6.1
-50	1.1	11.6	1.1	13.6	1.1	12.2
-75	1.7	17.4	1.6	20.4	1.7	18.3
-100	2.2	23.2	2.2	27.2	2.2	24.4

[1] Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of convexity on the portfolio's response to changes in interest rates is not significant and has not been factored into the data above.

The Board of Directors limits interest rate risk on the investment portfolio by establishing and monitoring duration ranges within investment guidelines. The target duration for the core portfolio is between one and three years and for the surplus portfolio is between one and five years. The duration of the fixed income portfolios at June 30, 2008 was 1.9 years for the core portfolio (June 30, 2007 - 1.7; December 31, 2007 - 1.9) and 3.5 years for the surplus portfolio (June 30, 2007 - 3.8; December 31, 2007 - 3.4).

In addition to duration management, the Group uses Value at Risk ("VaR") to measure potential losses in the estimated fair values of its cash and invested assets. Management measures VaR on a monthly basis to understand and monitor risk.

The VaR calculation is performed using variance / covariance risk modeling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using market standard pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses as well as parametric methods that rely on option adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal measure monitored is a ninety day VaR at a 99% confidence level. Management also monitors the 95% confidence interval. The ninety day VaR, at a 99% confidence interval, measures the minimum amount by which the assets should be expected to lose in a ninety day time horizon, under normal conditions, 1% of the time. The current VaR tolerance is 3.0% of shareholders' equity, using the ninety day VaR at a 99% confidence level.

The Group's VaR calculations are as follows:

	jun 30, 2008		jun 30, 2007		dec 31, 2007	
	%	$m	%	$m	%	$m
99% confidence level	2.7	35.7	1.6	21.1	2.2	26.9
95% confidence level	1.9	25.3	1.1	15.0	1.6	19.1

credit risk

Credit risk on the fixed income portfolio is mitigated through the Group's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below BBB-/ Baa3 may comprise no more than 5% of shareholders' equity, with the exception of U.S. government and agency securities. In addition, no one issuer should exceed 5% of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed income securities issued by the U.S. government and government agencies.

The table below presents an analysis of the Group's major exposures to counter-party credit risk, based on their Standard & Poor's or equivalent rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded, but based on management's historical experience there is limited default risk associated with these amounts.

jun 30, 2008	**$m**	**$m**	**$m**	**$m**
	equities and derivative assets	**cash and fixed income**	**premium and other receivables**	**outstanding claims and IBNR recoverable**
AAA	-	1,424.2	-	-
AA+, AA, AA-	-	191.9	-	-
A+, A, A-	-	128.7	-	10.1
BBB+, BBB, BBB-	-	50.5	-	-
other	87.0	12.8	252.7	-
total	**87.0**	**1,808.1**	**252.7**	**10.1**

jun 30, 2007	**$m**	**$m**	**$m**	**$m**
	equities and derivative assets	**cash and fixed income**	**premium and other receivables**	**outstanding claims and IBNR recoverable**
AAA	-	1,245.3	-	-
AA+, AA, AA-	-	180.1	-	-
A+, A, A-	-	111.7	-	0.5
BBB+, BBB, BBB-	-	57.7	-	-
other	78.0	10.5	264.7	-
total	**78.0**	**1,605.3**	**264.7**	**0.5**

dec 31, 2007	$m equities and derivative assets	$m cash and fixed income	$m premium and other receivables	$m outstanding claims and IBNR recoverable
AAA	-	1,478.8	-	-
AA+, AA, AA-	-	119.2	-	-
A+, A, A-	-	161.2	8.2	3.6
BBB+, BBB, BBB-	-	56.3	-	-
other	76.0	15.0	202.0	-
total	**76.0**	**1,830.5**	**210.2**	**3.6**

1. general information

The Group is a provider of global property insurance and reinsurance products. LHL was incorporated under the laws of Bermuda on October 12, 2005. LHL's common shares are admitted to trading on AIM, a market operated by the London Stock Exchange. A secondary listing on the Bermuda Stock Exchange ("BSX") was approved on May 21, 2007. The registered office of LHL is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. LHL has five wholly owned subsidiaries: Lancashire Insurance Company Limited ("LICL"), Lancashire Insurance Holdings (UK) Limited ("LIHUKL"), Lancashire Insurance Marketing Services Limited ("LIMSL"), Lancashire Insurance Services Limited ("LISL") and Lancashire Marketing Services (Middle East) Limited ("LMSMEL"). LIHUKL is a holding company for a wholly owned operating subsidiary, Lancashire Insurance Company (UK) Limited ("LICUKL").

The subsidiaries were incorporated and licensed as insurance companies or intermediaries as follows:

	LICL	LICUKL	LIMSL	LISL	LMSMEL
date of incorporation	oct 28, 2005	mar 17, 2006	oct 7, 2005	mar 17, 2006	mar 11, 2007
licensing body	BMA[1]	FSA[2]	FSA	none	DFSA[3]

[1] Bermuda Monetary Authority ("BMA")
[2] United Kingdom, Financial Services Authority ("FSA")
[3] Dubai Financial Services Authority ("DFSA")

2. segmental reporting

Management and the Board review the Group's business primarily by its four principal classes: property, energy, marine and aviation. Management has therefore deemed these classes to be its business and primary segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each primary segment.

revenue and expense by business segment – six months ended june 30, 2008

gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
analysed by geographical segment:					
worldwide offshore	0.5	108.5	42.8	-	151.8
U.S. and Canada	67.0	1.7	0.1	-	68.8
worldwide, including the U.S. and Canada (1)	32.3	6.4	2.0	21.0	61.7
worldwide, excluding the U.S. and Canada (2)	40.1	0.3	0.2	0.1	40.7
europe	15.3	0.9	2.8	0.2	19.2
far east	6.8	1.9	0.1	-	8.8
middle east	4.0	3.1	-	-	7.1
rest of world	23.6	1.7	-	-	25.3
total	**189.6**	**124.5**	**48.0**	**21.3**	**383.4**
outwards reinsurance premiums	(25.3)	(21.8)	(7.8)	(4.2)	(59.1)
change in unearned premiums	(41.3)	3.0	(6.1)	18.6	(25.8)
change in unearned premiums ceded	7.4	4.8	3.9	2.9	19.0
net premiums earned	**130.4**	**110.5**	**38.0**	**38.6**	**317.5**
insurance losses and loss adjustment expenses	(45.5)	(68.6)	(22.5)	(3.4)	(140.0)
insurance losses recoverable	-	6.4	-	-	6.4
insurance acquisition expenses	(17.0)	(18.8)	(10.4)	(8.2)	(54.4)
insurance acquisition expenses ceded	0.7	2.9	0.2	0.1	3.9
net underwriting profit	**68.6**	**32.4**	**5.3**	**27.1**	**133.4**
unallocated income and expenses					2.8
profit before tax					**136.2**

	property	**energy**	**marine**	**aviation**	**total**
loss ratio	34.9%	56.3%	59.2%	8.8%	42.1%
acquisition cost ratio	12.5%	14.4%	26.8%	21.0%	15.9%
expense ratio	-	-	-	-	8.4%
combined ratio	**47.4%**	**70.7%**	**86.0%**	**29.8%**	**66.4%**

assets and liabilities by business segment – as at june 30, 2008

assets	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
attributable to business segments	138.6	118.2	46.2	43.4	346.4
other assets					1,929.7
total assets					**2,276.1**
liabilities					
attributable to business segments	291.7	308.7	110.4	54.4	765.2
other liabilities					205.2
total liabilities					**970.4**
total net assets					**1,305.7**

revenue and expense by business segment – six months ended june 30, 2007

gross premiums written	$m	$m	$m	$m	$m
	property	energy	marine	aviation	total
analysed by geographical segment:					
worldwide offshore	0.4	142.1	29.2	-	171.7
worldwide, including the U.S. and Canada (1)	40.3	22.3	9.9	26.4	98.9
U.S. and Canada	76.9	11.0	0.2	-	88.1
worldwide, excluding the U.S. and Canada (2)	40.8	1.1	0.4	0.1	42.4
europe	16.5	0.4	4.2	0.5	21.6
far east	5.7	1.4	0.2	-	7.3
middle east	2.3	5.4	(1.1)	-	6.6
rest of world	12.9	1.2	0.8	-	14.9
total	**195.8**	**184.9**	**43.8**	**27.0**	**451.5**
outwards reinsurance premiums	(20.7)	(54.7)	-	-	(75.4)
change in unearned premiums	(61.2)	(61.3)	(12.1)	6.2	(128.4)
change in unearned premiums ceded	9.6	34.8	-	-	44.4
net premiums earned	**123.5**	**103.7**	**31.7**	**33.2**	**292.1**
insurance losses and loss adjustment expenses	(32.4)	(35.4)	(15.6)	(1.4)	(84.8)
insurance losses recoverable	-	0.5	-	-	0.5
insurance acquisition expenses	(14.6)	(18.8)	(6.4)	(5.8)	(45.6)
insurance acquisition expenses ceded	0.4	4.0	-	-	4.4
net underwriting profit	**76.9**	**54.0**	**9.7**	**26.0**	**166.6**
unallocated income and expenses					4.5
profit before tax					**171.1**

	property	energy	marine	aviation	total
loss ratio	26.2%	33.7%	49.2%	4.2%	28.9%
acquisition cost ratio	11.5%	14.3%	20.2%	17.5%	14.1%
expense ratio	-	-	-	-	9.2%
combined ratio	**37.7%**	**48.0%**	**69.4%**	**21.7%**	**52.2%**

assets and liabilities by business segment – as at june 30, 2007

assets	$m	$m	$m	$m	$m
	property	energy	marine	aviation	total
attributable to business segments	123.8	173.3	39.1	52.4	388.6
other assets					1,723.0
total assets					**2,111.6**
liabilities					
attributable to business segments	237.8	298.6	65.8	47.7	649.9
other liabilities					151.5
total liabilities					**801.4**
total net assets					**1,310.2**

revenue and expense by business segment – twelve months ended december 31, 2007

gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
analysed by geographical segment:					
worldwide offshore	0.7	213.1	54.3	-	268.1
worldwide, including the U.S. and Canada (1)	75.1	34.2	12.5	83.2	205.0
U.S. and Canada	114.2	12.8	0.2	-	127.2
worldwide, excluding the U.S. and Canada (2)	43.9	4.1	1.5	0.3	49.8
europe	35.4	2.8	4.4	0.6	43.2
far east	10.4	2.7	4.2	-	17.3
middle east	6.2	8.2	(1.0)	0.1	13.5
rest of world	23.4	4.8	0.8	-	29.0
total	**309.3**	**282.7**	**76.9**	**84.2**	**753.1**
outwards reinsurance premiums	(23.0)	(63.3)	-	-	(86.3)
change in unearned premiums	(23.8)	(16.4)	(7.9)	(8.0)	(56.1)
change in unearned premiums ceded	(0.1)	0.6	-	-	0.5
net premiums earned	**262.4**	**203.6**	**69.0**	**76.2**	**611.2**
insurance losses and loss adjustment expenses	(36.8)	(71.3)	(38.0)	(3.9)	(150.0)
insurance losses recoverable	-	3.7	-	-	3.7
insurance acquisition expenses	(32.3)	(37.4)	(14.9)	(11.0)	(95.6)
insurance acquisition expenses ceded	1.0	18.1	-	-	19.1
net underwriting profit	**194.3**	**116.7**	**16.1**	**61.3**	**388.4**
unallocated income and expenses					3.5
profit before tax					**391.9**

	property	**energy**	**marine**	**aviation**	**total**
loss ratio	14.0%	33.2%	55.1%	5.1%	23.9%
acquisition cost ratio	11.9%	9.5%	21.6%	14.4%	12.5%
expense ratio	-	-	-	-	9.9%
combined ratio	**25.9%**	**42.7%**	**76.7%**	**19.5%**	**46.3%**

assets and liabilities by business segment – as at december 31, 2007

assets	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
attributable to business segments	100.2	88.2	37.0	64.8	290.2
other assets					1,944.5
total assets					**2,234.7**
liabilities					
attributable to business segments	200.2	240.0	81.7	64.8	586.7
other liabilities					432.4
total liabilities					**1,019.1**
total net assets					**1,215.6**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the United States of America and Canada.

The Group's net assets are located primarily in Bermuda. Less than 10% of total net assets were attributable to the UK operations for the periods ended June 30, 2008 and 2007 and the year ended December 31, 2007.

3. investment return

The total investment return for the Group is as follows:

	six months 2008 $m	**six months 2007 $m**	**twelve months 2007 $m**
investment income			
- interest on fixed income securities	21.9	27.7	60.0
- net amortisation of discount	3.0	1.4	2.6
- interest income on cash and cash equivalents	7.0	7.6	18.6
- dividends from equity securities	0.5	0.3	0.8
- investment management and custodian fees	(1.8)	(1.7)	(3.6)
net investment income	**30.6**	**35.3**	**78.4**
net realised and unrealised gains (losses) on other investments	**0.3**	**(0.8)**	**(3.3)**
net realised gains and impairments			
- fixed income securities	5.2	2.6	5.0
- equity securities	0.9	1.8	4.1
net realised gains and impairments	**6.1**	**4.4**	**9.1**
net change in unrealised (losses) gains recognised in shareholders' equity			
- fixed income securities	(10.9)	(8.6)	9.2
- equity securities	(0.9)	4.4	3.2
net change in unrealised (losses) gains recognised in shareholders' equity	**(11.8)**	**(4.2)**	**12.4**
total investment return on available for sale investments	**25.2**	**34.7**	**96.6**
net fair value (losses) gains on investments at fair value through income	**(1.0)**	**0.3**	**0.4**
total investment return	**24.2**	**35.0**	**97.0**

Net realised gains and impairments on fixed income and equity securities includes an impairment loss of $2.8 million (June 30, 2007 - $nil; December 31, 2007 - $1.3 million) recognised on fixed income and equity investments held by the Group.

Movements within unrealised gains and losses within shareholders' equity are as follows:

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
fixed income securities			
- net unrealised gains released to income statement	(7.5)	(3.2)	(2.7)
- net unrealised (gains) losses credited to equity	(3.9)	(5.3)	11.5
- net unrealised losses released for impairments to income statement	0.6	-	0.4
equity securities			
- net unrealised gains released to income statement	(3.0)	(1.8)	(4.4)
- net unrealised (gains) losses credited to equity	(0.1)	6.1	7.1
- net unrealised losses released for impairments to income statement	2.1	-	0.5
net unrealised (losses) gains recognised in shareholders' equity	**(11.8)**	**(4.2)**	**12.4**

4. net insurance acquisition expenses

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
insurance acquisition expenses	65.4	58.0	101.9
changes in deferred insurance acquisition expenses	(11.0)	(12.3)	(6.3)
insurance acquisition expenses ceded	(5.1)	(9.1)	(19.7)
changes in deferred insurance acquisition expenses ceded	1.2	4.6	0.6
total	**50.5**	**41.2**	**76.5**

5. other operating expenses

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
operating expenses unrelated to underwriting	26.7	26.8	60.5
equity based compensation	1.3	6.4	14.4
total	**28.0**	**33.2**	**74.9**

6. employee benefits

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
wages and salaries	7.0	5.5	12.8
pension costs	0.6	0.5	0.9
bonus and other benefits	6.5	8.0	23.1
equity based compensation	1.3	6.4	14.4
total	**15.4**	**20.4**	**51.2**

equity based compensation

warrants	number thousands	weighted average exercise price US$
allocated as at december 31, 2006	19,297	$5.00
allocated during the period	-	$5.00
allocated as at june 30, 2007	19,297	$5.00
allocated during the period	648	$5.00
allocated as at december 31, 2007	19,945	$5.00
allocated during the period	-	$5.00
allocated as at june 30, 2008	19,945	$4.51
exercisable at june 30, 2008	9,658	$5.00

The fair value of warrants granted for all periods reported was $2.62 per share as there were no further issues. A credit of $3.0 million (June 30, 2007 - $4.8 million charge; December 31, 2007 - $9.3 million charge) for share-based payment is included in other operating expenses in the condensed interim consolidated income statement.

long term incentive plan ("LTIP") and restricted share scheme ("RSS")

restricted share scheme - ordinary

The ordinary restricted shares vest after a three year period and are dependent on certain performance criteria. The entitlement to shares was issued on March 28, 2008. A maximum of 50% of ordinary restricted shares will vest only on the achievement of a total shareholder return in excess of the 75th percentile of the total shareholder return of a pre-defined comparator group. A maximum of 50% of ordinary restricted shares will vest only on the achievement of a return on equity in excess of a required amount.

restricted share scheme - exceptional

The exceptional restricted shares vest after a two year period and do not have associated performance criteria.

The range of exercise prices for options awarded under the LTIP are as follows:

jun 30, 2008		jun 30, 2007		dec 31, 2007	
low	**high**	**low**	**high**	**low**	**high**
£2.69	£2.99	£3.25	£3.55	£3.25	£3.55
$5.76	$6.16	$6.51	$7.11	$6.50	$7.26

In the first six months of 2008, no options to purchase common shares were issued (June 30, 2007 - 3,869,013; December 31, 2007 - 4,590,105). In the first six months of 2008, no common shares were forfeited (June 30, 2007 - nil; December 31, 2007 - 12,709).

options	number thousands	weighted average exercise price US$
outstanding as at december 31, 2006	2,402	$6.55
granted during the period	3,869	$7.00
outstanding as at june 30, 2007	6,271	$6.84
forfeited during the period	(13)	$7.11
granted during the period	721	$7.26
outstanding as at december 31, 2007	6,979	$6.88
granted during the period	-	-
outstanding as at june 30, 2008	6,979	$5.77
exercisable at june 30, 2008	2,102	$5.63

The weighted fair value of options granted during the period ended June 30, 2008 was $nil as there were no options granted during the period (June 30, 2007 - $2.61; December 31, 2007 - $2.77). A share-based payment expense of $3.8 million (June 30, 2007 - $1.6 million; December 31, 2007 - $5.1 million) is included in other operating expenses in the condensed interim consolidated income statement.

restricted shares	number thousands	fair value US$
allocated during the period and as at june 30, 2008	1,883	$5.73
exercisable at june 30, 2008	-	$5.73

The fair value of restricted shares granted during the period ended June 30, 2008 was $5.73 per restricted share. A share based payment expense of $0.5 million is included in other operating expenses in the condensed interim consolidated income statement.

7. results of operating activities

Results of operating activities are stated after charging the following amounts:

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
depreciation on owned assets	0.6	0.7	1.4
operating lease charges	1.0	1.0	1.8
auditors remuneration			
- group audit fees	0.7	0.6	1.3
- other services	-	-	0.2
total	**2.3**	**2.3**	**4.7**

Fees paid to the Group's auditors for other services are approved by the Group's Audit Committee. Such fees comprise the following amounts:

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
tax advice	-	-	0.1
FSA regulatory advice	-	-	-
other	-	-	0.1
total	**-**	**-**	**0.2**

8. tax

United Kingdom

The UK subsidiaries are subject to normal UK corporation tax on all their profits.

tax charge	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
corporation tax charge for the period	-	1.1	2.1
adjustments in respect of prior period corporation tax	(0.6)	-	0.1
deferred tax for the period	0.5	(0.4)	(1.1)
adjustments in respect of prior period deferred tax	0.5	-	(0.1)
total	**0.4**	**0.7**	**1.0**

tax reconciliation	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
profit before tax	136.2	171.1	391.9
less profit not subject to tax	(138.4)	(168.9)	(389.0)
(loss) profits subject to tax	(2.2)	2.2	2.9
UK corporation tax at weighted average rate	(0.6)	0.7	0.9
adjustments in respect of prior period	(0.1)	-	-
non-deductible expenses	-	-	0.1
other expense temporary differences	1.1	-	(0.1)
deferred tax at a rate other than weighed average rate	-	-	0.1
total	**0.4**	**0.7**	**1.0**

As of April 1, 2008 the standard rate of corporation tax in the UK is 28%. The weighted average rate for 2008 is 28.5%. For all previous periods the standard rate and the weighted average rate was 30%. The current tax charge as a percentage of the Group's profit before tax is 0.3% (June 30, 2007 - 0.4%, December 31, 2007 - 0.3%) due to the different tax paying jurisdictions throughout the Group.

Current corporation tax of $0.2 million was credited to equity during the period (June 30, 2007 - $nil; December 31, 2007 - $0.4 million charge) which relates to unrealised investment gains and losses recognised directly in equity.

taxation	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
UK corporation tax receivable	0.2	-	-
UK corporation tax payable	-	2.2	1.2

9. deferred tax

	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
deferred tax assets	1.5	1.2	2.0
deferred tax liabilities	(0.5)	-	-
net deferred tax asset	**1.0**	**1.2**	**2.0**

The deferred tax asset relates to the warrants and options benefit schemes and tax losses carried forward. The deferred tax liability is in respect of temporary differences relating to expenses. All deferred tax assets and liabilities are classified as non-current.

The movement on the total net deferred tax asset is as follows:

	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
as at beginning of period	2.0	0.8	0.8
income statement (charge) credit	(1.0)	0.4	1.2
as at end of period	**1.0**	**1.2**	**2.0**

10. cash and cash equivalents

	jun 30, 2008 $m	jun 30, 2007 $m	dec 31, 2007 $m
cash at bank and in hand	108.9	186.0	22.8
cash equivalents	655.8	181.7	714.5
total	**764.7**	**367.7**	**737.3**

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents totalling $28.9 million (June 30, 2007 - $11.0 million; December 31, 2007 - $22.1 million) were on deposit in various trust accounts for the benefit of policyholders or counter-parties to agreements to cover their credit risk.

Cash and cash equivalents totalling $49.4 million (June 30, 2007 - $58.7 million; December 31, 2007 - $36.9 million) were on deposit as collateral in favour of letters of credit issued for the benefit of policyholders or counter-parties to cover their credit risk.

11. investments

as at june 30, 2008	$m cost or amortised cost	$m gross unrealised gain	$m gross unrealised loss	$m estimated fair value
fixed income securities				
- short-term investments	61.3	-	-	61.3
- U.S. treasuries	402.3	3.1	(2.5)	402.9
- other government bonds	15.5	0.1	-	15.6
- U.S. government agency mortgage backed securities	259.0	2.9	(0.7)	261.2
- corporate bonds	271.0	1.5	(2.6)	269.9
- convertible debt securities	12.5	0.1	(1.0)	11.6
total fixed income securities - available for sale	**1,021.6**	**7.7**	**(6.8)**	**1,022.5**
equity securities - available for sale	74.6	13.9	(5.5)	83.0
total available for sale securities	**1,096.2**	**21.6**	**(12.3)**	**1,105.5**
fixed income securities - at fair value through income	21.5	0.2	(0.8)	20.9
other investments - at fair value through income (note 15)	3.7	0.6	(0.3)	4.0
total investments	**1,121.4**	**22.4**	**(13.4)**	**1,130.4**

as at june 30, 2007	$m cost or amortised cost	$m gross unrealised gain	$m gross unrealised loss	$m estimated fair value
fixed income				
- U.S. treasuries	141.2	0.3	(0.5)	141.0
- U.S. government agency debt	235.6	0.1	(0.6)	235.1
- asset backed securities	136.1	-	(0.2)	135.9
- U.S. government agency mortgage backed securities	271.6	0.4	(2.8)	269.2
- non-agency mortgage backed securities	187.4	0.2	(1.0)	186.6
- corporate bonds	229.9	0.6	(1.2)	229.3
- convertible debt securities	24.3	-	(1.3)	23.0
total fixed income securities available for sale	**1,226.1**	**1.6**	**(7.6)**	**1,220.1**
equity securities available for sale	58.2	11.5	(1.0)	68.7
total available for sale securities	**1,284.3**	**13.1**	**(8.6)**	**1,288.8**
fixed income securities - at fair value through income	17.2	0.6	(0.3)	17.5
other investments – at fair value through income (note 15)	8.3	2.3	(1.3)	9.3
total investments	**1,309.8**	**16.0**	**(10.2)**	**1,315.6**

as at december 31, 2007	**$m** cost or amortised cost	**$m** gross unrealised gain	**$m** gross unrealised loss	**$m** estimated fair value
fixed income securities				
- short-term investments	0.7	-	-	0.7
- U.S. treasuries	251.6	2.9	(0.1)	254.4
- U.S. government agency debt	206.5	2.8	-	209.3
- U.S. government agency mortgage backed securities	237.2	4.0	(0.1)	241.1
- non-agency mortgage backed securities	7.0	-	-	7.0
- corporate bonds	341.1	3.5	(1.3)	343.3
- convertible debt securities	13.9	0.3	(0.3)	13.9
total fixed income securities - available for sale	**1,058.0**	**13.5**	**(1.8)**	**1,069.7**
equity securities - available for sale	62.2	12.1	(2.7)	71.6
total available for sale securities	**1,120.2**	**25.6**	**(4.5)**	**1,141.3**
fixed income securities - at fair value through income	23.1	0.8	(0.4)	23.5
other investments - at fair value through income (note 15)	4.4	0.4	(0.4)	4.4
total investments	**1,147.7**	**26.8**	**(5.3)**	**1,169.2**

Equity securities and other investments are generally deemed non-current.

12. investment in associate

	jun 30, 2008 $m	**jun 30, 2007 $m**	**dec 31, 2007 $m**
as at beginning of period	22.9	23.2	23.2
share of (loss) profit of associate	(0.2)	2.8	6.2
dividends received	(22.7)	(4.6)	(6.5)
as at end of period	**-**	**21.4**	**22.9**

Key financial information for Sirocco is as follows:

	jun 30, 2008 $m	**jun 30, 2007 $m**	**dec 31, 2007 $m**
assets	0.3	133.5	117.0
liabilities	-	31.8	8.2
shareholders' equity	0.3	101.7	108.8
revenues	-	29.5	36.4
(loss) profit	(1.5)	25.9	29.8

Effective December 31, 2007, the reinsurance agreement entered into with Sirocco Re was commuted. Sirocco entered into a members’ voluntary liquidation on June 12, 2008 with the dissolution of the company expected by September 30, 2008.

13. insurance and reinsurance contracts

insurance liabilities	**$m** unearned premiums	**$m** other payables	**$m** total
as at december 31, 2006	**325.7**	**5.2**	**330.9**
net deferral for:			
prior years	(199.4)	-	(199.4)
current year	327.8	-	327.8
other	-	1.0	1.0
as at june 30, 2007	**454.1**	**6.2**	**460.3**
net deferral for:			
prior years	(82.2)	-	(82.2)
current year	9.9	-	9.9
other	-	10.3	10.3
as at december 31, 2007	**381.8**	**16.5**	**398.3**
net deferral for:			
prior years	(229.2)	-	(229.2)
current year	255.0	-	255.0
other	-	(0.6)	(0.6)
as at june 30, 2008	**407.6**	**15.9**	**423.5**

losses and loss adjustment expenses	$m losses and loss adjustment expenses	$m reinsurance recoveries	$m net losses and loss adjustment expenses
as at december 31, 2006	**39.1**	**-**	**39.1**
net incurred losses for:			
prior years	3.8	-	3.8
current year	81.0	(0.5)	80.5
exchange adjustments	-	-	-
incurred losses and loss adjustment expenses	**84.8**	**(0.5)**	**84.3**
net paid losses for:			
prior years	2.0	-	2.0
current year	0.2	-	0.2
paid losses and loss adjustment expenses	**2.2**	**-**	**2.2**
as at june 30, 2007	**121.7**	**(0.5)**	**121.2**
net incurred losses for:			
prior years	(8.2)	-	(8.2)
current year	73.4	(3.2)	70.2
exchange adjustments	0.4	0.1	0.5
incurred losses and loss adjustment expenses	**65.6**	**(3.1)**	**62.5**
net paid losses for:			
prior years	2.7	-	2.7
current year	5.0	-	5.0
paid losses and loss adjustment expenses	**7.7**	**-**	**7.7**
as at december 31, 2007	**179.6**	**(3.6)**	**176.0**
net incurred losses for:			
prior years	(4.1)	(4.4)	(8.5)
current year	144.1	(2.0)	142.1
exchange adjustments	0.9	(0.1)	0.8
incurred losses and loss adjustment expenses	**140.9**	**(6.5)**	**134.4**
net paid losses for:			
prior years	15.1	-	15.1
current year	0.8	-	0.8
paid losses and loss adjustment expenses	**15.9**	**-**	**15.9**
as at june 30, 2008	**304.6**	**(10.1)**	**294.5**

reinsurance assets and liabilities	**$m**	**$m**	**$m**	**$m**
	unearned premiums on premiums ceded	**amounts payable to reinsurers**	**other receivables**	**total**
as at december 31, 2006	**19.1**	**(0.8)**	**-**	**18.3**
net deferral for:				
prior years	(19.0)	-	-	(19.0)
current year	63.4	-	-	63.4
other	-	(60.0)	-	(60.0)
as at june 30, 2007	**63.5**	**(60.8)**	**-**	**2.7**
net deferral for:				
prior years	(0.1)	-	-	(0.1)
current year	(43.8)	-	-	(43.8)
other	-	55.1	8.2	63.3
as at december 31, 2007	**19.6**	**(5.7)**	**8.2**	**22.1**
net deferral for:				
prior years	(16.8)	-	-	(16.8)
current year	35.8	-	-	35.8
other	-	(27.1)	(8.2)	(35.3)
as at june 30, 2008	**38.6**	**(32.8)**	**-**	**5.8**

The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in our loss reserves. Management believe that the loss reserves established are adequate, however a 20% increase in estimated losses would lead to a $60.9 million (June 30, 2007 - $24.3 million; December 31, 2007 - $35.9 million) increase in loss reserves. There was no change to reserving assumptions during the period.

The split of losses and loss adjustment expenses between notified outstanding losses, additional case reserves assessed by management and losses incurred but not reported is shown below:

	jun 30, 2008 $m	**jun 30, 2007 $m**	**dec 31, 2007 $m**
outstanding losses	132.3	38.3	56.0
additional case reserves	23.0	-	17.8
losses incurred but not reported	149.3	83.4	105.8
losses and loss adjustment expenses reserves	**304.6**	**121.7**	**179.6**

It is estimated that our reserve for unpaid losses and loss adjustment expenses has a duration of approximately two years.

The total favourable (adverse) development on losses and loss adjustment expenses from prior years was $4.0 million (June 30, 2007 $(3.8) million ; December 31, 2007 - $4.4 million). There have been no events during the period that significantly impacted the Group.

14. letters of credit

As at June 30, 2008, letters of credit totalling $61.9 million had been issued to LICUKL (June 30, 2007 - $nil; December 31, 2007 - $61.9 million). Letters of credit totalling $37.9 million (June 30, 2007 - $70.3 million; December 31, 2007 - $37.0 million) had been issued to third parties by LICL and there was no outstanding debt under this facility (June 30, 2007 and December 31, 2007 - $nil). Letters of credit are required to be fully collateralised. As at June 30, 2008 $113.2 million (June 30, 2007 - $95.5 million; December 31, 2007 - $110.8 million) of collateral had been posted to a trust account, the beneficiaries of which are the banks who have issued letters of credit on our behalf. Under the terms of the facility, investments in the trust account are subject to various discounts to allow for market fluctuations in the investments provided as security. The discounts are determined per investment type.

15. derivative financial instruments

During the period, a $0.1 million credit (June 30, 2007 - $0.9 million credit; December 31, 2007 - $1.3 million expense) was recorded in financing costs in respect of the Group's interest rate swap. The net fair value position owed by the Group was $1.8 million (June 30, 2007 - $0.1 million; December 31, 2007 - $2.2 million). The next cash settlement due on this instrument is $0.3 million (June 30, 2007 and December 31, 2007 - negligible) and is due on September 15, 2008. The counter-party requires collateralisation of positions in excess of $2.0 million.

As at June 30, 2008 the derivative instrument portion of the Group's convertible debt securities was valued at $4.0 million (June 30, 2007 - $8.8 million; December 31, 2007 - $4.4 million), with changes in net unrealised gains of $0.3 million (June 30, 2007 - $0.3 million; December 31, 2007 - $1.8 million loss) reflected in the condensed interim consolidated income statement in net other investment income.

The Group entered into a contingent equity physically settled put option on June 13, 2007. The option gave the Group the right to put up to 9,786,000 shares to the counter-party at a guaranteed price of $5.00 per share or the available market rate, if higher. The options expired on November 30, 2007. There was no obligation to exercise the option. During the period to June 30, 2007 $1.1 million was charged to financing costs. During the period to June 30, 2007 and December 31, 2007 respectively $1.1 million and $1.5 million was charged to other investment income in respect of the value of the derivative at inception of the contract which expired unexercised.

16. share capital

authorised ordinary shares of $0.50 each	number	$m
as at all balance sheet dates	**3,000,000,000**	**1,500**

allocated, called up and fully paid		
as at december 31, 2006	**195,743,346**	**97.9**
shares issued	127,087	-
shares repurchased	(94,447)	-
as at june 30, 2007	**195,775,986**	**97.9**
shares issued	500,000	0.1
shares repurchased	(13,992,891)	(6.9)
as at december 31, 2007	**182,283,095**	**91.1**
shares issued	-	-
shares repurchased	(5,682,638)	-
as at june 30, 2008	**176,600,457**	**91.1**

On May 15, 2007, 127,087 shares were issued and 94,447 repurchased as part of a cashless exercise of warrants. On August 15, 2007, 500,000 shares were issued and 351,975 repurchased as part of a cashless exercise of warrants.

The Board granted share repurchase authorisations of up to $100.0 million[1], $25.0 million, $25.0 million and $25.0 million on October 29, 2007, April 30, 2008, June 9, 2008 and July 1, 2008, respectively. As at July 4, 2008 the Group entered into a non-cancellable, irrevocable agreement with its corporate broker to transact the outstanding June 9 authorisation and the July 1 authorisation during the Group's close period. The close period ended upon the publication of results on August 5, 2008.

Shares were repurchased as follows:

date	number of shares	weighted average share price	$m
november 9 – december 18, 2007 [2]	13,640,916	£3.54	100.2
may 12 – jun 10, 2008 [3]	3,965,590	£3.19	25.0
jun 13 – jun 30, 2008 [3]	1,717,048	£3.08	10.5
total	**19,323,554**	£3.43	**135.7**

[1] Due to the movement of exchange rates between trade and settlement dates, the amount paid for the $100.0 million share repurchase program was $100.2 million versus the authorised program of $100.0 million. The variance was ratified by the Board of Directors on February 14, 2008.
[2] These shares were repurchased and cancelled.
[3] These shares were repurchased and transferred to treasury shares.

The share repurchase program was ongoing at June 30, 2008 with $39.5 million remaining under the current authorisations. At the balance sheet date $2.4 million of proceeds were yet to be settled (June 30, 2007 - $nil; December 31, 2007 - $10.5 million).

On December 10, 2007 the Board of Directors authorised the payment of a strategic dividend of $1.10 (£0.5622) per common share to be paid in pounds sterling to shareholders of record on January 11, 2008 with a settlement date of January 25, 2008. The total dividend amount payable at June 30, 2008 and 2007 was $nil and at December 31, 2007 was $239.1 million, recorded in other payables in the condensed interim consolidated balance sheet.

17. earnings per share

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
profit for the period attributable to equity shareholders	135.8	170.4	390.9

	number of shares thousands	number of shares thousands	number of shares thousands
basic weighted average number of shares	181,463	195,752	194,201
potentially dilutive shares related to share-based compensation	7,512	9,929	10,959
diluted weighted average number of shares	188,975	205,681	205,160

Share based payments are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. In the current period, incremental shares from the assumed exercising of management performance warrants, where relevant performance criteria are based on future dates, are not included in calculating dilutive shares. In addition, options which are antidilutive are not included in the number of potentially dilutive shares.

18. related party disclosures

key management compensation

Remuneration for key management was as follows:

	six months 2008 $m	six months 2007 $m	twelve months 2007 $m
short-term compensation	3.6	2.2	11.3
share based compensation	3.8	4.6	10.8
total	**7.4**	**6.8**	**22.1**

transactions with directors and shareholders

Significant shareholders have a representation on the Board of Directors. During the period the Group paid $1.1 million (June 30, 2007 - $0.5 million; December 31, 2007 - $1.2 million) in directors' fees and expenses, including $0.4 million (June 30, 2007 - $0.2 million; December 31, 2007 - $0.5 million) to significant shareholders. A further $0.1 million (June 30, 2007 - $0.1 million; December 31, 2007 - $0.2 million) was paid in respect of monitoring fees for significant founding shareholders.

transactions with the Lancashire Foundation

On December 1, 2007, 648,143 unallocated ordinary warrants were allocated to the Lancashire Foundation, a charity established under Bermuda Law. As a result the initial funding of the Lancashire Foundation (the “Foundation”) by the Group was achieved with no impact on LHL’s return on equity.

As at December 31, 2007, LHL had loaned the Foundation $0.4 million (June 30, 2007 - $nil) evidenced by limited resource promissory notes executed by the Foundation Trustees in favour of LHL. The loans were made to fund the Foundation’s activities pending the exercise of the warrants donated to the Foundation. Subsequent to December 31, 2007 the loan was repaid in full.

19. statutory requirements and dividend restrictions

Annual statutory capital and surplus reported to regulatory authorities by the primary operating subsidiaries was as follows:

as at december 31, 2007	**$m**	**£m**	**$m**
	LICL	**LICUKL**	**LMSMEL**
statutory capital and surplus	1,387.1	55.4	0.3
minimum required statutory capital and surplus	311.1	13.4	0.1

Statutory capital and surplus during the year was as follows:

as at june 30, 2008	**$m**	**£m**	**$m**
	LICL	**LICUKL**	**LMSMEL**
statutory capital and surplus	1,182.5	89.7	0.3
minimum required statutory capital and surplus	146.4	17.4	0.1

as at june 30, 2007	**$m**	**£m**	**$m**
	LICL	**LICUKL**	**LMSMEL**
statutory capital and surplus	1,238.4	55.3	0.3
minimum required statutory capital and surplus	175.6	13.8	0.1

As at June 30, 2008, June 30, 2007 and December 31, 2007 the capital requirements of all three regulatory jurisdictions were met.

20. presentation

Certain amounts in the June 30, 2007 condensed interim consolidated financial statements have been re-presented to conform with the current year's presentation and format. These changes in presentation have no effect on the previously reported net profit.

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INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS

LANCASHIRE HOLDINGS LIMITED

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Lancashire Holdings Limited and its subsidiaries (the "Group") as at June 30, 2008, comprising of the interim consolidated balance sheet as at June 30, 2008 and the related interim consolidated statements of income, changes in equity and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard applicable to interim financial reporting as adopted by the European Union ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Ltd.

August 6, 2008
Hamilton, Bermuda