

LANCASHIRE HOLDINGS LIMITED

LANCASHIRE GROWS BOOK VALUE PER SHARE 3.1% IN Q1 2009 COMBINED RATIO OF 81.2%

15 May 2009
Hamilton, Bermuda

Lancashire Holdings Limited (“Lancashire” or “the Company”) today announces its first quarter results for the three month period ended 31 March 2009.

Financial highlights for the first quarter of 2009:

- Fully converted book value per share of \$7.07 at 31 March 2009, compared to \$6.86 at 31 December 2008, an increase of 3.1%. Compound annual return on equity since inception of 17.4%;
- Gross written premiums of \$142.8 million. Net written premiums of \$99.2 million;
- Financial year loss ratio of 53.6% and a combined ratio of 81.2%. Accident year loss ratio of 28.9%;
- Annualised total investment return of 4.6%, including net investment income, realised gains and losses, impairments, and change in unrealised gains and losses;
- Net operating profit of \$35.8 million, or \$0.19 diluted operating earnings per share; and
- Net profit after tax of \$40.7 million, or \$0.22 diluted earnings per share.

Richard Brindle, Group Chief Executive Officer, commented:

“Lancashire had a reasonable quarter, growing book value per share by 3.1%. Our underwriting and investment returns were good, with an accident year loss ratio of 28.9% and an annualised total investment return of 4.6%. Our results were impacted by the previously announced reserve strengthening for Hurricane Ike, but our underlying earnings performance was strong. Since our inception, Lancashire has grown book value per share, including dividends, in twelve quarters out of thirteen, generating a compound annual return of 17.4%.

Lancashire’s key markets are experiencing a hardening in rates and terms. This has been gathering pace as the year has progressed and should continue to do so in the months to come. In certain segments, most notably in the offshore energy area, the market has been in disarray with renewals much later than expected. We have been patiently holding back capacity in several classes, waiting for the most opportune time to deploy our capital. Indeed, we wrote significantly less in the first quarter of 2009 compared to 2008. However, the market is now extremely active, with rates rising strongly year on year.”

Underwriting results

Gross written premiums decreased by 23.5% in the first quarter of 2009 compared to the same period in 2008. This was largely driven by Lancashire holding back a large amount of capacity in the direct property, retrocession and energy catastrophe classes in order to take better advantage of improving opportunities. Rate rises are gaining momentum with more significant increases expected as the year progresses.

Net written premiums decreased by 30.1% for the quarter compared to the same period in 2008. This was chiefly due to lower gross written premiums. The amount of reinsurance ceded in the first quarter remained broadly the same as a year ago.

Net earned premiums as a proportion of net written premiums were 140.3% in the first quarter of 2009 compared to 119.1% in the same period in 2008. The increase reflects the reduction in gross written premiums in the quarter as compared to the prior year.

The net loss ratio of 53.6% for the first quarter includes 28.6% from an increase of \$39.8 million for Hurricane Ike from the year end reported estimate. There has been no further development since our announcement of 8 April 2009. Excluding the impact from Hurricane Ike, the Company's net loss ratio was 25.0%, reflecting an otherwise comparatively quiet quarter for loss activity. Overall, net reserves experienced adverse prior year development of \$34.4 million for the quarter compared to a favourable development of \$3.2 million in 2008. Excluding Hurricane Ike specific development, the prior year development was a favourable \$5.4 million. The accident year loss ratio for the quarter was 28.9% compared to 40.6% last year.

Investments

Net investment income was \$13.5 million for the first quarter, a decrease of 23.7% from the first quarter of 2008. The quarterly total investment return was 1.1%, or 4.6% annualised, broadly in line with 1.2%, or 4.9% annualised, for the first quarter of 2008. The Company's strategy of maintaining a conservative investment portfolio to minimise potential losses from market volatility continues unabated and the portfolio performed well in relative terms.

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 \$23.5 million in the quarter compared to \$21.5 million for the prior year. At 31 March 2009, the fixed income portfolio plus managed cash had a duration of 1.4 years, a credit quality of AA+ and a market yield of 1.9%. The reduced market yield is a result of both lower market yields in general, and a lower asset allocation to corporate debt securities. Investment assets were comprised of 67.8% fixed income and 32.2% cash. Lancashire is not currently invested in equities, hedge funds or other alternative investments.

Other operating expenses

Other operating expenses, excluding the cost of warrants and options, increased by \$0.7 million to \$12.4 million in the first quarter of 2009 compared to the same period in 2008. Employee compensation costs were 52.4% of other operating expenses compared to 49.8% in 2008.

Equity based compensation was \$3.0 million in the first quarter of 2009 compared to a credit of \$1.5 million in the same period last year. This expense includes mark to market adjustments on certain performance warrants.

Capital

At 31 March 2009, total capital was \$1.446 billion, comprising shareholders' equity of \$1.317 billion and \$128.7 million of long-term debt. Leverage was 8.9%. Total capital at 31 December 2008 was \$1.404 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 2009 first 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 Friday, 15 May 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)20 7806 1956 / +1 718 354 1389 with the passcode 1457383. 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 Friday, 29 May 2009. The dial in number for the replay facility is +44 (0)20 7806 1970 / +1 718 354 1112 and the passcode is 1457383#. The replay facility can also be accessed at www.lancashiregroup.com.

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consolidated balance sheet
(unaudited)

	31 march 2009	31 december 2008
	\$m	\$m
assets		
cash and cash equivalents	731.1	413.6
accrued interest receivable	9.3	10.1
investments		
- fixed income securities		
- available for sale	1,464.8	1,595.4
- at fair value through profit and loss	-	4.0
- equity securities, available for sale	-	5.8
- other investments	-	-
reinsurance assets		
- unearned premium on premium ceded	36.6	10.0
- reinsurance recoveries	53.4	42.1
- other receivables	3.2	3.2
deferred acquisition costs	57.0	60.9
inwards premium receivable from insureds and cedants	176.3	187.3
other assets	72.1	156.6
total assets	2,603.8	2,489.0
liabilities		
insurance contracts		
- loss and loss adjustment expenses	564.7	528.8
- unearned premiums	326.2	339.6
- other payables	16.2	17.6
amounts payable to reinsurers	21.9	2.0
deferred acquisition costs ceded	2.6	1.9
other payables	226.4	195.6
long-term debt	128.7	130.8
total liabilities	1,286.7	1,216.3
shareholders' equity		
share capital	91.2	91.1
treasury shares	(59.0)	(58.0)
share premium	65.2	60.1
contributed surplus	752.6	754.8
fair value and other reserves	29.3	27.6
dividends	-	0.1
retained earnings	437.8	397.0
total shareholders' equity attributable to equity shareholders	1,317.1	1,272.7
total liabilities and shareholders' equity	2,603.8	2,489.0
basic book value per share	\$7.62	\$7.36
fully converted book value per share	\$7.07	\$6.86

consolidated income statement

(unaudited)

	quarter 1 2009 \$m	quarter 1 2008 \$m
gross premiums written	142.8	186.7
outwards reinsurance premiums	(43.6)	(44.8)
net premiums written	99.2	141.9
change in unearned premiums	13.4	3.2
change in unearned premiums on premium ceded	26.6	23.9
net premiums earned	139.2	169.0
net investment income	13.5	17.7
net other investment income (losses)	-	(0.5)
net realised gains (losses) and impairments	8.0	7.5
net fair value gains (losses) on investments at fair value through profit and loss	0.3	(0.7)
share of profit (loss) of associate	-	(0.1)
net foreign exchange gains (losses)	(1.6)	0.3
total net revenue	159.4	193.2
insurance losses and loss adjustment expenses	89.1	66.9
insurance losses and loss adjustment expenses recoverable	(14.5)	(1.2)
net insurance acquisition expenses	26.0	26.0
equity based compensation	3.0	(1.5)
other operating expenses	12.4	11.7
total expenses	116.0	101.9
profit before tax and finance costs	43.4	91.3
finance costs	2.4	4.9
profit before tax	41.0	86.4
tax	(0.3)	(1.8)
profit after tax	40.7	84.6
net loss ratio	53.6%	38.9%
net acquisition cost ratio	18.7%	15.4%
administrative expense ratio	8.9%	6.9%
combined ratio	81.2%	61.2%
basic earnings per share	\$0.24	\$0.46
diluted earnings per share	\$0.22	\$0.45
change in fully converted book value per share	3.1%	5.0%

consolidated cash flow statement
(unaudited)

	quarter 1 2009 \$m	quarter 1 2008 \$m
cash flows from operating activities		
profit before tax	41.0	86.4
tax paid	(0.3)	(0.5)
depreciation	0.2	0.3
interest expense	1.9	2.8
interest and dividend income	(16.7)	(16.4)
amortisation of fixed income securities	2.0	(0.3)
equity based compensation	3.0	(1.5)
foreign exchange	0.8	0.2
share of loss (profit) of associate	-	0.1
net other investment losses	-	0.5
net realised (gains) losses and impairments on investments	(8.0)	(7.5)
net fair value (gains) losses on investments at fair value through profit and loss	(0.3)	0.7
unrealised loss on interest rate swaps	-	1.8
reinsurance assets		
- unearned premium on premium ceded	(26.6)	(23.9)
- reinsurance recoveries	(11.3)	(1.3)
- other receivables	-	8.2
deferred acquisition costs	3.9	(1.5)
other receivables	85.3	(15.0)
inwards premium receivable from insureds and cedants	10.5	(6.3)
insurance contracts		
- losses and loss adjustment expenses	37.0	54.5
- unearned premiums	(13.4)	(3.2)
- other payables	(2.1)	(6.1)
amounts payable to reinsurers	19.9	27.6
deferred acquisition costs ceded	0.7	0.8
other payables	30.0	23.3
net cash flows from operating activities	157.5	123.7
cash flows used in investing activities		
interest and dividends received	17.4	19.5
purchase of property, plant and equipment	-	-
dividends received from associate	-	19.2
purchase of fixed income securities	(1,072.9)	(886.2)
purchase of equity securities	-	(9.3)
proceeds on maturity and disposal of fixed income securities	1,216.7	853.9
proceeds on disposal of equity securities	4.6	2.2
net proceeds on other investments	0.2	0.1
net cash flows used in investing activities	166.0	(0.6)
cash flows used in financing activities		
interest paid	(2.0)	(2.9)
dividends paid	-	(238.2)
shares repurchased	(1.0)	(10.5)
net cash flows used in financing activities	(3.0)	(251.6)
net (decrease) increase in cash and cash equivalents	320.5	(128.5)
cash and cash equivalents at beginning of year	413.6	737.3
effect of exchange rate fluctuations on cash and cash equivalents	(3.0)	1.2
cash and cash equivalents at end of period	731.1	610.0

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 dollars and its Common Shares trade on the main market of the London Stock Exchange 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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