LANCASHIRE HOLDINGS LIMITED

unaudited condensed interim consolidated financial statements

for the six months ended 30 june 2009

financial highlights

for the first half of 2009:

- Fully converted book value per share of $7.57 at 30 June 2009, compared to $6.89 at 31 December 2008, an increase of 9.9%;
- Compound annual Return on Equity since inception of 18.2%;
- Gross written premiums of $384.7 million. Net written premiums of $337.9 million;
- Reported loss ratio of 29.3% and a combined ratio of 57.9%; Accident year loss ratio of 29.8%;
- Annualised total investment return of 3.5%;
- Net operating profit of $139.2 million, or $0.75 diluted operating earnings per share;
- Net profit after tax of $147.1 million, or $0.79 diluted earnings per share ; and
- Interim dividend of 5.0 cents per common share.

Group Chief Executive Officer's statement:

I am pleased to report another good performance by the Group. We delivered a return on equity of 9.9% for the first half of the year.

Our underwriting result was excellent with a combined ratio for the first six months of 57.9%. Our investments returned 3.5% on an annualised basis; a reasonable result given our conservative philosophy. Since our inception, the Group has grown book value per share, including dividends, in thirteen quarters out of fourteen, generating a compound annual return of 18.2%.

We have, however, been somewhat surprised by the reduced demand this year for Gulf of Mexico energy hurricane cover. This significantly reduced the level of business written by the Group in that particular class, as compared to our expectations. At the same time, we have made steady progress in building our property catastrophe book in many United States' critical catastrophe zones and expect to become a significant market participant. Despite reduced premium income in the Gulf of Mexico market, the Group has seen strong overall premium growth in the quarter. We are also pleased with the business written in July at rating levels supporting our decision to hold back capacity earlier in the year.

We are proud of the fact that during the second quarter the Group entered the London Stock Exchange FTSE 250 Index. We are also pleased to declare an interim dividend of 5.0 cents per share.

We look forward with enthusiasm to the opportunities ahead of us for the rest of the year.

underwriting results

Gross written premiums increased by 23.0% in the second quarter of 2009 compared to the same period in 2008. In 2009 to date, gross written premiums increased by 0.3% compared to the first six months of 2008. In the first quarter of 2009, the Group held back significant capacity in the direct property, retrocession and energy catastrophe classes in order to take better advantage of improving opportunities. Trading conditions, with the exception of the Gulf of Mexico energy class, have generally met expectations.

The Group's four principal classes, and a discussion of the key market factors impacting them, are as follows:

	q2				ytd			
	2009 $m	2008 $m	change $m	change %	2009 $m	2008 $m	change $m	change %
property	113.3	87.2	26.1	29.9	189.3	189.6	(0.3)	(0.2)
energy	88.2	80.6	7.6	9.4	116.4	124.5	(8.1)	(6.5)
marine	25.4	14.6	10.8	74.0	55.6	48.0	7.6	15.8
aviation	15.0	14.3	0.7	4.9	23.4	21.3	2.1	9.9
total	**241.9**	**196.7**	**45.2**	**23.0**	**384.7**	**383.4**	**1.3**	**0.3**

Property gross written premiums increased by 29.9% for the quarter compared to the same period in 2008, and decreased by 0.2% in the first six months of 2009 compared to the first six months of 2008. In the second quarter, the Group wrote significantly more property catastrophe reinsurance risks than in the second quarter of 2008. In the first quarter of 2009, a tactical decision was made to reduce volumes in the retrocession class and in the direct and facultative class compared to the first quarter in 2008.

Energy gross written premiums increased by 9.4% for the quarter compared to the same period in 2008 and decreased by 6.5% in the first six months of 2009 compared to the first six months of 2008. Gulf of Mexico volumes were lower in both the first and second quarters in 2009 compared to the respective prior year periods.

Marine gross written premiums increased by 74.0% for the quarter compared to the same period in 2008 and by 15.8% in the first six months of 2009 compared to the first six months of 2008. The increased volume in each period was primarily driven by renewals of certain multi-year contracts.

Aviation gross written premiums increased by 4.9% for the quarter compared to the same period in 2008 and by 9.9% in the first six months of 2009 compared to the first six months of 2008. The non-renewal of a satellite risk programme in the first quarter was offset by modestly increased volume in the AV52 subclass.

For the six month period to 30 June 2009, ceded premiums reduced by 20.8% in 2009 compared to 2008. The main reason for the change is a reduction in the level of reinsurance purchased in respect of Gulf of Mexico energy catastrophe risks. This is directly related to the lower than expected volumes of premium written in this class.

Net earned premiums as a proportion of net written premiums were 83.8% in the six months to 30 June 2009, compared to 97.9% in the same period in 2008. With 2008 premium volumes lower than 2007, the deferral of earnings into the following year is reduced. Further, with the Group reducing premiums written in the first quarter of 2009, premium earnings are modestly deferred over the remainder of the year and into 2010.

The net loss ratio of 5.8% for the second quarter reflects both an unusually low number of losses during the period and favourable development of prior year reserves. The table below provides further detail of movements by class. In the second quarter, the Group received some notifications of reduced reserve estimates for a number of specific risk losses in the property and energy classes, and some other specific claims settled favourably compared to booked estimates. The six months to 30 June 2009 includes adverse development of Hurricane Ike of $39.8 million (before tax) which was booked in the first quarter. The expected ultimate loss from Hurricane Ike did not change during the second quarter. The net loss ratio for the six months to 30 June 2009 was 29.3%. Net prior year reserve releases were $35.3 million for the second quarter and $0.9 million for the year to date. The accident year loss ratio for the quarter was 30.7% compared to 48.0% for the same period in 2008. For the year to date, the accident year loss ratio was 29.8% compared to 44.1% for the six months to 30 June 2008.

The ratio of IBNR to total reserves was 41.2% at 30 June 2009, an increase of 8.6% since 31 December 2008.

	q2		ytd	
	2009 $m	**2008 $m**	**2009 $m**	**2008 $m**
property	13.6	10.0	29.0	13.8
energy	17.2	(6.1)	(33.9)	(5.2)
marine	1.2	(1.3)	2.5	(2.8)
aviation	3.3	0.7	3.3	0.7
total	**35.3**	**3.3**	**0.9**	**6.5**

Note: positive numbers denote favourable development and negative numbers denote adverse development.

investments

Net investment income was $27.5 million for the six months to 30 June 2009, a decrease of 10.1% on the same period in 2008 which is largely due to a reduction in the overall portfolio yield.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $36.4 million for the 2009 year to date versus $24.4 million for the same period in 2008. At 30 June 2009, the fixed income portfolio plus managed cash had a duration of 1.9 years, a credit quality of AA+ and a market yield of 2.2%. This compares to 1.8 years, AA+ and 2.7%, respectively, at 31 December 2008.

The Group continues to hold a conservative portfolio, consistent with its long-term philosophy, with an emphasis on preserving capital. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, decreased by 2.2% from 31 December 2008, bringing the total holding to 13.0% of invested assets. There was a small increase in the allocation to Treasury Inflation Protected Securities to hedge against potential future inflationary pressures, bringing the total holding of these securities to 4.0% of invested assets. At 30 June 2009, the portfolio comprised 81.7% fixed income assets and 18.3% cash versus the prior year end of 80.3% fixed income assets, 0.3% equities and other, and 19.4% cash. The Group 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, are broadly consistent compared to the same periods in 2008, reflecting the Group's stable operating platform. Employee compensation costs were 54.8% of other operating expenses in the six months to 30 June 2009 compared to 54.6% in first half of 2008.

For the six months to 30 June 2009 and 2008 the charge for equity based compensation was $5.6 million and $1.3 million respectively. This expense includes mark-to-market adjustments on certain performance warrants.

capital

At 30 June 2009, total capital was $1.550 billion, comprising shareholders' equity of $1.419 billion and $130.7 million of long-term debt. Leverage was 8.4%. Total capital at 31 December 2008 was $1.404 billion.

dividends

The Lancashire Board has declared an interim dividend of 5.0 cents per common share. The dividend will be paid on 7 October 2009 to shareholders on the register at the close of business on 28 August 2009. The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

outlook

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

condensed interim consolidated statement of income and comprehensive income
for the six months ended 30 june 2009

	notes	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
gross premiums written	2	384.7	383.4	638.1
outwards reinsurance premiums	2	(46.8)	(59.1)	(63.4)
net premiums written		**337.9**	**324.3**	**574.7**
change in unearned premiums	2, 12	(70.5)	(25.8)	42.2
change in unearned premiums ceded	2, 12	15.9	19.0	(9.6)
net premiums earned		**283.3**	**317.5**	**607.3**
net investment income	3	27.5	30.6	59.5
net other investment income	3, 14	-	0.3	0.1
net realised gains (losses) and impairments	3, 14	10.3	6.1	(11.0)
net fair value gains (losses) on investments at fair value through profit and loss	3	0.3	(1.0)	(0.6)
share of loss of associate		-	(0.2)	(0.2)
net foreign exchange gains (losses)		0.7	0.3	(8.5)
total net revenue		**322.1**	**353.6**	**646.6**
insurance losses and loss adjustment expenses	2, 12	95.6	140.0	418.8
insurance losses and loss adjustment expenses recoverable	2, 12	(12.6)	(6.4)	(43.3)
net insurance losses		**83.0**	**133.6**	**375.5**
insurance acquisition expenses	2, 4	56.4	54.4	106.9
insurance acquisition expenses ceded	2, 4	(2.8)	(3.9)	(7.3)
other operating expenses	5, 6, 7	33.0	28.0	59.9
total expenses		**169.6**	**212.1**	**535.0**
results of operating activities		**152.5**	**141.5**	**111.6**
financing costs	14	4.3	5.3	14.0
profit before tax		**148.2**	**136.2**	**97.6**
tax charge	8, 9	1.1	0.4	0.1
profit for the period attributable to equity shareholders		**147.1**	**135.8**	**97.5**
net change in unrealised (losses) gains on investments	3	(1.8)	(11.8)	7.1
tax on net change in unrealised (losses) gains on investments	8	0.1	0.2	(0.2)
other comprehensive (loss) income		**(1.7)**	**(11.6)**	**6.9**
total comprehensive income attributable to equity shareholders		**145.4**	**124.2**	**104.4**
earnings per share				
basic	18	$0.85	$0.75	$0.55
diluted	18	$0.79	$0.72	$0.53

condensed interim consolidated balance sheet
as at 30 june 2009

	notes	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
assets				
cash and cash equivalents	10	418.1	764.7	413.6
accrued interest receivable		9.2	7.8	10.1
investments				
- fixed income securities				
- available for sale	11	1,738.1	1,022.5	1,595.4
- at fair value through profit and loss	11	-	20.9	4.0
- equity securities - available for sale	11	-	83.0	5.8
- other investments	11, 14	-	4.0	-
reinsurance assets				
- unearned premiums ceded	12	25.9	38.6	10.0
- reinsurance recoveries	12	49.2	10.1	42.1
- other receivables	12	2.2	-	3.2
deferred acquisition costs		68.9	68.8	60.9
other receivables		26.3	26.7	154.0
inwards premium receivable from insureds and cedants		255.4	226.0	187.3
corporation tax receivable	8	-	0.2	-
deferred tax asset	9	2.9	1.0	1.2
property, plant and equipment		1.0	1.8	1.4
total assets		**2,597.2**	**2,276.1**	**2,489.0**
liabilities				
insurance contracts				
- losses and loss adjustment expenses	12	543.6	304.6	528.8
- unearned premiums	12	410.1	407.6	339.6
- other payables	12	16.9	15.9	17.6
amounts payable to reinsurers	12	13.3	32.8	2.0
deferred acquisition costs ceded		1.5	4.3	1.9
other payables		55.3	68.1	190.3
corporation tax payable	8	2.3	-	-
interest rate swap	14	4.4	1.8	4.9
accrued interest payable		0.3	0.4	0.4
long-term debt		130.7	134.9	130.8
total liabilities		**1,178.4**	**970.4**	**1,216.3**
shareholders’ equity				
share capital	15	91.2	91.1	91.1
own shares	15, 17	(59.0)	(35.5)	(58.0)
share premium		2.4	2.4	2.4
contributed surplus	20	757.3	758.2	758.2
accumulated other comprehensive income		25.9	9.1	27.6
other reserves	16	56.8	45.0	54.3
retained earnings		544.2	435.4	397.1
total shareholders' equity		**1,418.8**	**1,305.7**	**1,272.7**
total liabilities and shareholders' equity		**2,597.2**	**2,276.1**	**2,489.0**

condensed interim consolidated statement of changes in shareholders' equity
for the six months ended 30 june 2009

	notes	share capital $m	own shares $m	share premium $m	contributed surplus $m	accumulated other comprehensive income $m	other reserves $m	retained earnings $m	total $m
balance as at 31 december 2008		**91.1**	**(58.0)**	**2.4**	**758.2**	**27.6**	**54.3**	**397.1**	**1,272.7**
total comprehensive (loss) income for the period	3, 8	-	-	-	-	(1.7)	-	147.1	145.4
shares repurchased by trust	15, 17	-	(4.9)	-	-	-	-	-	(4.9)
shares distributed by trust	15, 17	-	3.9	-	(3.9)	-	-	-	-
warrant exercises	15, 16	0.1	-	-	(0.1)	-	-	-	-
option exercises	16	-	-	-	3.1	-	(3.1)	-	-
warrant issues - performance	6	-	-	-	-	-	1.9	-	1.9
option issues	6	-	-	-	-	-	2.3	-	2.3
restricted stock issues - ordinary and exceptional	6	-	-	-	-	-	1.4	-	1.4
balance as at 30 june 2009		**91.2**	**(59.0)**	**2.4**	**757.3**	**25.9**	**56.8**	**544.2**	**1,418.8**

	notes	share capital $m	own shares $m	share premium $m	contributed surplus $m	accumulated other comprehensive income $m	other reserves $m	retained earnings $m	total $m
balance as at 31 december 2007		**91.1**	**-**	**2.4**	**758.2**	**20.7**	**43.7**	**299.5**	**1,215.6**
total comprehensive (loss) income for the period	3, 8	-	-	-	-	(11.6)	-	135.8	124.2
shares repurchased and held in treasury	15, 17	-	(35.5)	-	-	-	-	-	(35.5)
dividends on common shares		-	-	-	-	-	-	0.1	0.1
warrant issues - management and performance	6	-	-	-	-	-	(3.0)	-	(3.0)
option issues	6	-	-	-	-	-	3.8	-	3.8
restricted stock issues - ordinary and exceptional	6	-	-	-	-	-	0.5	-	0.5
balance as at 30 june 2008		**91.1**	**(35.5)**	**2.4**	**758.2**	**9.1**	**45.0**	**435.4**	**1,305.7**
total comprehensive income (loss) for the period	3, 8	-	-	-	-	18.5	-	(38.3)	(19.8)
shares repurchased and held in treasury	15, 17	-	(22.5)	-	-	-	-	-	(22.5)
warrant issues - management and performance	6	-	-	-	-	-	5.4	-	5.4
option issues	6	-	-	-	-	-	2.9	-	2.9
restricted stock issues - ordinary and exceptional	6	-	-	-	-	-	1.0	-	1.0
balance as at 31 december 2008		**91.1**	**(58.0)**	**2.4**	**758.2**	**27.6**	**54.3**	**397.1**	**1,272.7**

condensed interim statement of consolidated cash flow
for the six months ended 30 june 2009

	notes	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
cash flows from operating activities				
profit before tax		148.2	136.2	97.6
adjustments for:				
tax paid	8	(0.3)	(0.6)	(0.9)
depreciation		0.5	0.6	1.1
interest expense		3.5	5.1	9.8
interest and dividend income		(31.9)	(29.4)	(59.6)
accretion (amortisation) of fixed income securities		2.9	(0.6)	-
equity based compensation	5, 6	5.6	1.3	10.6
foreign exchange		(1.6)	1.4	9.4
share of loss of associate		-	0.2	0.2
net other investment income	3	-	(0.3)	(0.1)
net realised (gains) losses and impairments	3, 14	(10.3)	(6.1)	11.0
net fair value (gains) losses on investments at fair value through profit and loss	3	(0.3)	1.0	0.6
unrealised (gains) losses on interest rate swaps	14	(0.5)	(0.4)	2.7
changes in operational assets and liabilities:				
insurance and reinsurance contracts		(1.0)	123.0	285.9
other assets and liabilities		(8.6)	(4.9)	(7.6)
net cash flows from operating activities		**106.2**	**226.5**	**360.7**
cash flows used in investing activities				
interest and dividends received		32.8	31.4	59.4
purchase of property, plant and equipment		-	(0.1)	(0.2)
dividends received from associate		-	22.7	22.7
purchase of fixed income securities		(1,413.5)	(1,416.1)	(3,882.4)
purchase of equity securities		-	(20.0)	(31.9)
proceeds on maturity and disposal of fixed income securities		1,283.2	1,459.8	3,402.6
proceeds on disposal of equity securities		4.8	8.6	66.7
net proceeds on other investments		(1.6)	0.7	4.5
net cash flows (used in) from investing activities		**(94.3)**	**87.0**	**(358.6)**
cash flows used in financing activities				
interest paid		(3.6)	(5.3)	(10.0)
dividend paid		-	(238.2)	(238.2)
shares repurchased	15, 17	(3.9)	(43.6)	(68.3)
net cash flows used in financing activities		**(7.5)**	**(287.1)**	**(316.5)**
net increase (decrease) in cash and cash equivalents		**4.4**	**26.4**	**(314.4)**
cash and cash equivalents at beginning of period		413.6	737.3	737.3
effect of exchange rate fluctuations on cash and cash equivalents		0.1	1.0	(9.3)
cash and cash equivalents at end of period	10	**418.1**	**764.7**	**413.6**

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 31 December 2009. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2008, except as discussed below.

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.

While a number of new or amended IFRS and International Financial Reporting Interpretations Committee standards have been issued, there are none that either require adoption by the Group or that have a material impact. IFRS 8, Operating Segments, which replaces IAS 14, Segment Reporting has been adopted but has not led to significant changes in the Group's disclosures. IAS 1, Presentation of Financial Statements (Revised) has also been adopted, resulting in minor changes to presentation in the primary statements, most notably within the condensed interim consolidated statement of changes in shareholders' equity. The recent amendments to IFRS 7, Financial Instruments - Improving Disclosures About Financial Instruments, do not apply for interim financial statements, absent significant changes in estimating the fair value of securities. There have been no such changes and therefore no additional disclosure is included in the accompanying notes. The additional disclosures required by IFRS 7 in respect of valuation categories for fixed income securities will be included in the Group's consolidated annual financial statements.

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

seasonality of interim operations

The Group underwrites worldwide short-tail insurance and reinsurance property risks, including risks exposed to both natural and man-made catastrophes. 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.

Some of the Group's natural catastrophe portfolio is subject to potential seasonal variation. A proportion of the Group's business is exposed to large catastrophe losses in North America and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, from risk losses throughout the year and from war, terrorism and political risk. Given seasonality, the risk of a very large windstorm is higher in the second half of the fiscal year than the first half.

The Group's exposure to certain events, as a percentage of capital, including long-term debt, are shown below. These net loss estimates are before income tax, net of reinstatement premiums, and net of outwards reinsurance.

		30 jun 2009		30 jun 2008		31 dec 2008	
zones	perils	$m	% of capital	$m	% of capital	$m	% of capital
southeast U.S. wind [1]	hurricane	252.7	16.3	256.1	17.8	250.2	17.8
california	earthquake	289.7	18.7	231.8	16.1	255.6	18.2
pan-european	windstorm	139.7	9.0	193.7	13.4	143.7	10.2
japan	earthquake	229.9	14.8	270.9	18.8	244.2	17.4
japan	typhoon	95.9	6.2	130.8	9.1	110.3	7.9

(1) Landing hurricane from Florida to Texas, including Gulf of Mexico.

The hurricane, windstorm and typhoon events have an assumed probability of 1 in 100 years with the earthquake events at 1 in 250 years.

There can be no guarantee that the assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodeled loss which exceeds these figures. In addition, any modeled earthquake loss with an occurrence probability of greater than 1 in 250 years or a modeled hurricane, windstorm or typhoon loss with an occurrence probability of greater than 1 in 100 years could cause a larger loss to capital, as could a different type of loss event with a different occurrence probability.

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 31 December 2008. 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:

	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
available for sale			
- short-term investments	261.8	61.3	163.6
- U.S. treasuries	162.7	402.9	191.7
- other government bonds	49.7	15.6	54.1
- U.S. government agency debt	180.1	-	114.5
- U.S. government agency mortgage backed securities	600.7	261.2	614.4
- corporate bonds	276.5	269.9	303.5
- corporate bonds - FDIC guaranteed (1)	206.6	-	153.4
- convertible debt securities	-	11.6	0.2
available for sale	**1,738.1**	**1,022.5**	**1,595.4**
at fair value through income			
- convertible debt securities	-	20.9	4.0
total fixed income securities	**1,738.1**	**1,043.4**	**1,599.4**

	30 jun 2009 %	30 jun 2008 %	31 dec 2008 %
available for sale			
- short-term investments	15.0	5.9	10.2
- U.S. treasuries	9.4	38.6	12.0
- other government bonds	2.8	1.5	3.3
- U.S. government agency debt	10.4	-	7.2
- U.S. government agency mortgage backed securities	34.6	25.0	38.4
- corporate bonds	15.9	25.9	19.0
- corporate bonds - FDIC guaranteed (1)	11.9	-	9.6
- convertible debt securities	-	1.1	-
available for sale	**100.0**	**98.0**	**99.7**
at fair value through income			
- convertible debt securities	-	2.0	0.3
total fixed income securities	**100.0**	**100.0**	**100.0**

(1) FDIC guaranteed bonds are protected by the Federal Deposit Insurance Corporation, an independent agency of the U.S. government.

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 Group has no exposure to valuation risk from equity securities as at 30 June 2009 following the liquidation of its equity portfolio in the first half of 2009. The impact on net unrealised gains and losses of a 10% fall in the value of the Group's equity portfolio at 30 June 2008 and 31 December 2008 would have been $8.3 million and $0.6 million respectively.

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 sector allocation of the corporate bonds and convertible debt securities is as follows:

	30 jun 2009		30 jun 2008		31 dec 2008	
sector	**$m**	**%**	**$m**	**%**	**$m**	**%**
industrial	150.5	31.1	124.2	41.1	172.7	37.5
financial	284.9	59.0	113.8	37.6	254.6	55.2
utility	23.1	4.8	16.8	5.6	15.7	3.4
other	24.6	5.1	47.6	15.7	18.1	3.9
total	**483.1**	**100.0**	**302.4**	**100.0**	**461.1**	**100.0**

The financial sector allocation includes $206.6 million (30 June 2008 - $nil; 31 December 2008 - $153.4 million) of FDIC guaranteed bonds.

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 detailed below, assuming linear sensitivity to movements in interest rates.

immediate shift in yield	30 jun 2009		30 jun 2008		31 dec 2008	
(basis points)	**$m**	**%**	**$m**	**%**	**$m**	**%**
100	(48.5)	(2.8)	(24.3)	(2.3)	(43.1)	(2.7)
75	(36.4)	(2.1)	(18.2)	(1.7)	(32.3)	(2.0)
50	(24.3)	(1.4)	(12.1)	(1.2)	(21.6)	(1.4)
25	(12.1)	(0.7)	(6.1)	(0.6)	(10.8)	(0.7)
(25)	8.5	0.5	5.5	0.5	6.6	0.4
(50)	16.9	1.0	11.0	1.1	13.1	0.8
(75)	25.4	1.5	16.6	1.6	19.7	1.2
(100)	33.9	2.0	22.1	2.1	26.2	1.6

[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 has been factored into the data above.

The Group limits interest rate risk on the investment portfolio by establishing and monitoring duration ranges within investment guidelines. The duration of the core portfolio is closely matched to the duration of the insurance reserves and the permitted range is plus or minus 0.75 years to the duration of the insurance reserves. The permitted duration range for the core plus portfolio is between zero and four years and for the surplus portfolio it is between one and five years.

The duration of the portfolios, expressed in years, is as follows:

	30 jun 2009	30 jun 2008	31 dec 2008
core portfolio	1.5	1.9	1.7
core plus portfolio (1)	1.6	n/a	1.4
surplus portfolio	3.1	3.5	2.6

(1) The core plus portfolio was established 2 July 2008.

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 that is produced is a ninety day VaR at a 95th percentile confidence level. Management also monitors the 99th percentile confidence level. The ninety day VaR, at a 95th percentile confidence level, measures the minimum amount the assets should be expected to lose in a ninety day time horizon, under normal conditions, 5% of the time. The current VaR tolerance is 4.0% of shareholders' equity, using the ninety day VaR at a 95th percentile confidence level.

The Group's VaR calculations are as follows:

	30 jun 2009		30 jun 2008		31 dec 2008	
	$m	%	$m	%	$m	%
95th percentile confidence level	44.5	3.1	22.0	1.7	43.1	3.4
99th percentile confidence level	62.8	4.4	31.1	2.4	60.9	4.8

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

(i) quoted prices in active markets for the same instrument; or
(ii) quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; or
(iii) valuation techniques for which any significant input is not based on observable market data.

Securities that have quoted prices in active markets include publicly traded equity securities, U.S. treasuries and certain derivative financial instruments.

Securities that have their fair value estimated based on observable market data include:

- U.S. government agency debt;
- U.S. government agency mortgage backed securities;
- non-agency mortgage backed securities;
- corporate bonds;
- convertible debt securities;
- non-publicly traded equity securities; and
- certain derivative financial instruments.

Prices for the Group's investment portfolio are provided by a third party investment accounting firm whose pricing processes, and the controls thereon, are subject to an annual audit on both the operation and the effectiveness of those controls - a "SAS 70" audit. SAS 70 audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including index providers, broker dealers, and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' and custodian's pricing.

The majority of the Group's assets are invested in U.S. government or U.S. government agency securities which are less subject to pricing risk.

derivative financial instruments

The Group may occasionally utilise derivative instruments for yield enhancement, duration management, interest rate and foreign currency exposure management, or to obtain an exposure to a specific financial market or product. The Group currently holds the following derivative financial instruments:

mortgage backed "to be announced" securities ("TBAs")

The TBA market is essentially a forward or delayed delivery market for mortgage-backed securities issued by U.S. government agencies, where securities of a specific term and interest rate are bought or sold for future settlement on a "to be announced" basis. TBAs are generally physically settled and classified as available for sale fixed income securities. Occasionally TBAs may be traded for net settlement, allowing the Group a more efficient way to trade in TBAs. Such instruments are deemed to be derivative instruments. All TBAs classified as derivatives are held on a non-leveraged basis. The credit exposure is restricted to the differential between the settlement value of the forward purchase and the forward sale. The credit-worthiness of the counter-party is monitored and collateral may be required on open positions.

The estimated fair value of such TBA positions are an asset and corresponding liability of $6.2 million (30 June 2008 - $nil; 31 December 2008 - $116.4 million).

futures

The Group's investment guidelines only permit the use of futures which are exchange-traded. Such futures provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed income and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided for futures, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met, including: the use of clearing houses (thus reducing counter-party credit risk); the posting of margins; and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low.

The notional value of open futures contracts is as follows:

	30 jun 2009	
	$m	**$m**
	long	**short**
eurodollar futures contracts	560.0	-

A Eurodollar futures contract is an exposure to 3 month LIBOR, based on a commitment to a $1.0 million deposit. The estimated fair value is based on expectations of 3 month LIBOR and is negligible at 30 June 2009. The contracts currently held by the Group expire in December 2010.

The sensitivity of the price of the Group's Eurodollar futures position is detailed below:

immediate shift in 3 month LIBOR (basis points)	**30 jun 2009 $m**
100	(1.4)
75	(1.1)
50	(0.7)
25	(0.4)
(25)	0.4
(50)	0.7
(75)	1.1
(100)	1.4

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.

30 jun 2009	**$m**	**$m**	**$m**	**$m**
	equity securities and other investments	**cash and fixed income securities**	**inwards premium receivable and other receivables**	**reinsurance recoveries**
AAA	-	1,802.9	-	-
AA+, AA, AA-	-	64.1	-	-
A+, A, A-	-	246.5	2.2	49.2
BBB+, BBB, BBB-	-	42.6	-	-
other	-	0.1	281.7	-
total	**-**	**2,156.2**	**283.9**	**49.2**

30 jun 2008	**$m**	**$m**	**$m**	**$m**
	equity securities and other investments	**cash and fixed income securities**	**inwards premium receivable and other receivables**	**reinsurance recoveries**
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**

31 dec 2008	**$m** equity securities and other investments	**$m** cash and fixed income securities	**$m** inwards premium receivable and other receivables	**$m** reinsurance recoveries
AAA	-	1,572.6	-	-
AA+, AA, AA-	-	207.9	-	-
A+, A, A-	-	190.8	3.2	42.1
BBB+, BBB, BBB-	-	38.9	-	-
other	5.8	2.8	341.3	-
total	**5.8**	**2,013.0**	**344.5**	**42.1**

1. general information

The Group is a provider of global property insurance and reinsurance products. LHL was incorporated under the laws of Bermuda on 12 October 2005. As of 16 March 2009 LHL is listed on the main market of the London Stock Exchange ("LSE"). Previously LHL was listed on AIM, a subsidiary market of the LSE. A secondary listing on the Bermuda Stock Exchange ("BSX") was approved on 21 May 2007. The registered office of LHL is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. LHL has five subsidiaries, all wholly owned: Lancashire Insurance Company Limited ("LICL"), Lancashire Insurance Holdings (UK) Limited ("LIHL"), Lancashire Insurance Marketing Services Limited ("LIMSL"), Lancashire Insurance Services Limited ("LISL") and Lancashire Marketing Services (Middle East) Limited ("LMEL"). LIHL is a holding company for a wholly owned operating subsidiary, Lancashire Insurance Company (UK) Limited ("LUK").

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

	LICL	LIHL	LUK	LIMSL	LISL	LMEL
date of incorporation	28 october 2005	11 april 2006	17 march 2006	7 october 2005	17 march 2006	11 march 2007
licensing body	BMA[1]	none	FSA[2]	FSA[2]	none	DFSA[3]
nature of business	general insurance business	holding company	general insurance business	insurance mediation activities	support services	insurance mediation activities

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

2. operating segments

Management and the Board of Directors review the Group's business primarily by its four principal classes: property, energy, marine and aviation. These classes are therefore deemed to be the Group's operating segments for the purposes of segment reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 63 to 65 of the Group's annual consolidated financial statements. All amounts reported are transactions with external parties. There are no inter-segment transactions presented. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

revenue and expense by operating segment - six months ended 30 june 2009

gross premiums written	**$m** property	**$m** energy	**$m** marine	**$m** aviation	**$m** total
analysed by geographical region:					
worldwide offshore	0.8	104.8	53.2	-	158.8
U.S. and Canada	92.0	0.4	-	-	92.4
worldwide, including the U.S. and Canada [(1)]	23.5	5.6	0.4	23.2	52.7
worldwide, excluding the U.S. and Canada [(2)]	26.3	-	0.4	-	26.7
europe	18.7	0.6	1.5	0.2	21.0
far east	8.0	1.5	0.1	-	9.6
middle east	6.6	2.5	-	-	9.1
rest of world	13.4	1.0	-	-	14.4
total	**189.3**	**116.4**	**55.6**	**23.4**	**384.7**
outwards reinsurance premiums	(20.5)	(11.2)	(8.0)	(7.1)	(46.8)
change in unearned premiums	(58.0)	(23.0)	(8.1)	18.6	(70.5)
change in unearned premiums ceded	9.0	(0.5)	4.0	3.4	15.9
net premiums earned	**119.8**	**81.7**	**43.5**	**38.3**	**283.3**
insurance losses and loss adjustment expenses	4.2	(80.8)	(19.0)	-	(95.6)
insurance losses recoverable	-	12.6	-	-	12.6
insurance acquisition expenses	(15.7)	(19.5)	(13.2)	(8.0)	(56.4)
insurance acquisition expenses ceded	0.5	2.0	0.2	0.1	2.8
net underwriting profit	**108.8**	**(4.0)**	**11.5**	**30.4**	**146.7**
unallocated income and expenses					1.5
profit before tax					**148.2**
loss ratio	(3.5%)	83.5%	43.7%	-	29.3%
acquisition cost ratio	12.7%	21.4%	29.9%	20.6%	18.9%
expense ratio	-	-	-	-	9.7%
combined ratio	**9.2%**	**104.9%**	**73.6%**	**20.6%**	**57.9%**

[(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.

revenue and expense by operating segment - six months ended 30 june 2008

gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
analysed by geographical region:					
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**
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%**

revenue and expense by operating segment - twelve months ended 31 december 2008

gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	property	**energy**	**marine**	**aviation**	**total**
analysed by geographical region:					
worldwide offshore	0.9	159.1	72.6	-	232.6
worldwide, including the U.S. and Canada (1)	44.5	7.2	2.1	70.4	124.2
U.S. and Canada	108.5	4.2	0.1	-	112.8
worldwide, excluding the U.S. and Canada (2)	47.5	0.5	0.2	0.3	48.5
europe	34.1	4.6	2.9	0.4	42.0
far east	14.1	2.1	0.7	0.4	17.3
middle east	8.9	3.5	-	-	12.4
rest of world	44.2	4.0	-	0.1	48.3
total	**302.7**	**185.2**	**78.6**	**71.6**	**638.1**
outwards reinsurance premiums	(23.1)	(25.6)	(7.6)	(7.1)	(63.4)
change in unearned premiums	(2.3)	36.9	(0.5)	8.1	42.2
change in unearned premiums ceded	(5.1)	(5.3)	0.1	0.7	(9.6)
net premiums earned	**272.2**	**191.2**	**70.6**	**73.3**	**607.3**
insurance losses and loss adjustment expenses	(100.9)	(271.8)	(38.1)	(8.0)	(418.8)
insurance losses recoverable	-	43.3	-	-	43.3
insurance acquisition expenses	(35.3)	(36.7)	(19.8)	(15.1)	(106.9)
insurance acquisition expenses ceded	1.2	5.4	0.4	0.3	7.3
net underwriting profit	**137.2**	**(68.6)**	**13.1**	**50.5**	**132.2**
unallocated income and expenses					(34.6)
profit before tax					**97.6**
loss ratio	37.1%	119.5%	54.0%	10.9%	61.8%
acquisition cost ratio	12.5%	16.4%	27.5%	20.2%	16.4%
expense ratio	-	-	-	-	8.1%
combined ratio	**49.6%**	**135.9%**	**81.5%**	**31.1%**	**86.3%**

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 30 June 2009 and 2008 and the year ended 31 December 2008.

3. investment return

The total investment return for the Group is as follows:

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
investment income			
- interest on fixed income securities	30.8	21.9	46.5
- net (accretion) amortisation	(2.8)	3.0	3.5
- interest income on cash and cash equivalents	1.1	7.0	12.2
- dividends from equity securities	-	0.5	0.9
- investment management and custodian fees	(1.6)	(1.8)	(3.6)
net investment income	**27.5**	**30.6**	**59.5**
net other investment income	**-**	**0.3**	**0.1**
net realised gains (losses) and impairments			
- fixed income securities	12.9	5.2	10.6
- equity securities	(1.0)	0.9	(21.6)
- derivative financial instruments	(1.6)	-	-
net realised gains (losses) and impairments	**10.3**	**6.1**	**(11.0)**
net change in unrealised (losses) gains recognised in other comprehensive (loss) income			
- fixed income securities	(1.8)	(10.9)	16.5
- equity securities	-	(0.9)	(9.4)
net change in unrealised (losses) gains	**(1.8)**	**(11.8)**	**7.1**
total investment return on available for sale investments	**36.0**	**25.2**	**55.7**
net fair value gains (losses) on investments at fair value through profit and loss	**0.3**	**(1.0)**	**(0.6)**
total investment return	**36.3**	**24.2**	**55.1**

Net realised gains (losses) and impairments on fixed income and equity securities includes an impairment loss of $0.4 million (30 June 2008 - $2.8 million; 31 December 2008 - $21.6 million) recognised on fixed income and equity investments held by the Group.

Movements in unrealised gains and losses within other comprehensive (loss) income are as follows:

	six months 2009 $m	**six months 2008 $m**	**twelve months 2008 $m**
fixed income securities			
- net unrealised gains released to statement of income	(13.6)	(7.5)	(3.7)
- net unrealised gains (losses) recorded within comprehensive income	11.4	(3.9)	17.6
- net unrealised losses released for impairments to statement of income	0.4	0.6	2.6
equity securities			
- net unrealised losses (gains) released to statement of income	1.1	(3.0)	(1.0)
- net unrealised losses recorded within comprehensive income	(1.1)	(0.1)	(20.6)
- net unrealised losses released for impairments to statement of income	-	2.1	12.2
net change in unrealised (losses) gains on investments	**(1.8)**	**(11.8)**	**7.1**

4. net insurance acquisition expenses

	six months 2009 $m	**six months 2008 $m**	**twelve months 2008 $m**
insurance acquisition expenses	64.4	65.4	110.0
changes in deferred insurance acquisition expenses	(8.0)	(11.0)	(3.1)
insurance acquisition expenses ceded	(2.4)	(5.1)	(6.1)
changes in deferred insurance acquisition expenses ceded	(0.4)	1.2	(1.2)
total	**53.6**	**50.5**	**99.6**

5. other operating expenses

	six months 2009 $m	**six months 2008 $m**	**twelve months 2008 $m**
operating expenses unrelated to underwriting	27.4	26.7	49.3
equity based compensation	5.6	1.3	10.6
total	**33.0**	**28.0**	**59.9**

6. employee benefits

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
wages and salaries	7.5	7.0	14.2
pension costs	0.7	0.6	1.2
bonus and other benefits	6.3	6.5	9.6
equity based compensation	5.6	1.3	10.6
total	**20.1**	**15.4**	**35.6**

equity based compensation

management team ordinary warrants ("ordinary warrants")

ordinary warrants	number	weighted average exercise price US$
outstanding as at 31 december 2007	**11,433,465**	**$5.00**
outstanding as at 30 june 2008 and 31 december 2008	**11,433,465**	**$4.71**
outstanding as at 30 june 2009	**11,433,465**	**$4.71**
exercisable as at 30 june 2009	**11,433,465**	**$4.71**

There are no further charges for ordinary warrants as they fully vested at 31 December 2008. A charge of $1.2 million at 30 June 2008 and $3.3 million at 31 December 2008 is included in other operating expenses in the condensed interim consolidated statement of income and comprehensive income.

management team performance warrants ("performance warrants")

performance warrants	number	weighted average exercise price US$
outstanding as at 31 december 2007	**6,474,346**	**$5.00**
outstanding as at 30 june 2008	**6,474,346**	**$4.02**
lapsed during the period	(2,782,659)	$3.90
outstanding as at 31 december 2008	**3,691,687**	**$4.10**
outstanding as at 30 june 2009	**3,691,687**	**$4.10**
exercisable as at 30 june 2009	**797,154**	**$4.85**

A charge of $1.9 million (30 June 2008 - $4.2 million credit; 31 December 2008 - $0.9 million credit) is included in other operating expenses in the condensed interim consolidated statement of income and comprehensive income.

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

Exercise prices for options awarded under the LTIP range from $4.45 (£2.69) to $6.16 (£2.99) for all reporting dates, at the exchange rate in effect as at 30 June 2009.

options	number	weighted average exercise price US$
outstanding as at 31 december 2007	**6,979,339**	**$6.49** (1)
outstanding as at 30 june 2008	**6,979,339**	**$5.45** (1)
forfeited during the period	(86,039)	$6.10
outstanding as at 31 december 2008	**6,893,300**	**$5.44** (1)
exercised during the period	(1,322,511)	$4.64 (1)
forfeited during the period	(25,417)	$6.01
outstanding as at 30 june 2009	**5,545,372**	**$5.60**
exercisable as at 30 june 2009	**2,482,461**	**$5.53**

(1) Adjusted for revaluation at the exchange rate as at 30 june 2009

An expense of $2.3 million (30 June 2008 - $3.8 million; 31 December 2008 - $6.7 million) is included in other operating expenses in the condensed interim consolidated statement of income and comprehensive income.

restricted share scheme - ordinary

ordinary restricted shares	number	fair value US$
outstanding as at 31 december 2007	**-**	**-**
granted during the period	1,727,201	$5.73
outstanding as at 30 june 2008	**1,727,201**	**$5.73**
forfeited during the period	(18,914)	$5.73
granted during the period	124,500	$5.97
outstanding as at 31 december 2008	**1,832,787**	**$5.75**
forfeited during the period	(20,029)	$5.73
granted during the period	2,286,875	$7.77
outstanding as at 30 june 2009	**4,099,633**	**$6.88**

The ordinary restricted share awards vest after a three year period and are dependent on certain performance criteria. Awards were granted on 28 March 2008, 1 July 2008 and 19 May 2009.

restricted share scheme - exceptional

exceptional restricted shares	number	fair value US$
outstanding as at 31 december 2007	**-**	**-**
granted during the period	166,904	$5.73
outstanding as at 30 june 2008 and 31 december 2008	**166,904**	**$5.73**
outstanding as at 30 june 2009	**166,904**	**$5.73**

The exceptional restricted share awards vest after a two year period and do not have associated performance criteria for vesting. Awards were granted on 28 March 2008.

The fair value of each restricted share granted pursuant to both the ordinary and the exceptional restricted share awards is equal to the share price of LHL on the date of grant. An expense of $1.4 million (30 June 2008 - $0.5 million; 31 December 2008 - $1.5 million) in respect of restricted stock is included in other operating expenses in the condensed interim consolidated statement of income and comprehensive income.

7. results of operating activities

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

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
depreciation on owned assets	0.5	0.6	1.1
operating lease charges	0.7	1.0	1.8
auditors remuneration			
- group audit fees	0.6	0.7	1.2
- other services	0.6	-	0.2
total	**2.4**	**2.3**	**4.3**

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 2009 $m	six months 2008 $m	twelve months 2008 $m
tax advice	0.1	-	0.1
other	0.5	-	0.1
total	**0.6**	**-**	**0.2**

8. tax

United Kingdom

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

tax charge	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
corporation tax charge (credit) for the period	2.1	-	(0.3)
adjustments in respect of prior period corporation tax	0.7	(0.6)	(0.4)
deferred tax (credit) charge for the period	(1.1)	0.5	0.3
adjustments in respect of prior period deferred tax	(0.6)	0.5	0.5
total	**1.1**	**0.4**	**0.1**

tax reconciliation	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
profit before tax	148.2	136.2	97.6
less profit not subject to tax	(139.5)	(138.4)	(101.9)
profits (losses) subject to tax	8.7	(2.2)	(4.3)
UK corporation tax at weighted average rate	2.4	(0.6)	(1.2)
adjustments in respect of prior period	0.1	(0.1)	0.1
other expense temporary differences	(1.4)	1.1	1.2
total	**1.1**	**0.4**	**0.1**

On 1 April 2008 the standard rate of corporation tax in the UK decreased to 28%. The standard rate of tax for 2009 is 28% (30 June and 31 December 2008 - weighted average rate of 28.5%). The current tax charge as a percentage of the Group's profit before tax is 0.7% (30 June 2008 - 0.3%; 31 December 2008 - 0.1%) due to the different tax paying jurisdictions throughout the Group.

A current corporation tax expense of $0.1 million was credited to other comprehensive (loss) income for the period (30 June 2008 - $0.2 million; 31 December 2008 - $0.2 million charge), which relates to unrealised investment gains and losses included in accumulated other comprehensive income within shareholders' equity.

taxation	**30 jun 2009 $m**	**30 jun 2008 $m**	**31 dec 2008 $m**
UK corporation tax receivable	-	0.2	-
UK corporation tax payable	2.3	-	-

9. deferred tax

	30 jun 2009 $m	**30 jun 2008 $m**	**31 dec 2008 $m**
deferred tax assets	3.3	1.5	2.4
deferred tax liabilities	(0.4)	(0.5)	(1.2)
net deferred tax asset	**2.9**	**1.0**	**1.2**

The deferred tax asset relates to the warrants, options and restricted stock employee benefit schemes and tax losses carried forward. The deferred tax liability relates to claims equalisation reserves. All deferred tax assets and liabilities are classified as non-current.

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

	30 jun 2009 $m	**30 jun 2008 $m**	**31 dec 2008 $m**
as at beginning of period	1.2	2.0	2.0
income statement credit (charge)	1.7	(1.0)	(0.8)
as at end of period	**2.9**	**1.0**	**1.2**

10. cash and cash equivalents

	30 jun 2009 $m	**30 jun 2008 $m**	**31 dec 2008 $m**
cash at bank and in hand	9.7	108.9	7.9
cash equivalents	408.4	655.8	405.7
total	**418.1**	**764.7**	**413.6**

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

The following cash and cash equivalents balances were on deposit as collateral:

	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
on deposit in various trust accounts for policyholders	41.9	28.9	24.5
on deposit as collateral in favour of letters of credit	11.6	49.4	37.7
on deposit as collateral in favour of interest rate swaps	2.8	-	2.8
on deposit as collateral in favour of futures contracts	0.5	-	-
total	**56.8**	**78.3**	**65.0**

11. investments

as at 30 june 2009	**$m**	**$m**	**$m**	**$m**
	cost or amortised cost	**gross unrealised gain**	**gross unrealised loss**	**estimated fair value**
fixed income securities				
- short-term investments	261.8	-	-	261.8
- U.S. treasuries	160.5	2.7	(0.5)	162.7
- other government bonds	48.8	0.9	-	49.7
- U.S. government agency debt	178.6	2.1	(0.6)	180.1
- U.S. government agency mortgage backed securities	588.3	12.8	(0.4)	600.7
- corporate bonds	270.5	6.6	(0.6)	276.5
- corporate bonds - FDIC guaranteed [1]	203.2	3.5	(0.1)	206.6
total fixed income securities - available for sale	**1,711.7**	**28.6**	**(2.2)**	**1,738.1**
total investments	**1,711.7**	**28.6**	**(2.2)**	**1,738.1**

[1] FDIC guaranteed corporate bonds are protected by the Federal Deposit Insurance Corporation, an independent agency of the United States government

as at 30 june 2008	**$m**	**$m**	**$m**	**$m**
	cost or amortised cost	**gross unrealised gain**	**gross unrealised loss**	**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 profit and loss	21.5	0.2	(0.8)	20.9
other investments - at fair value through profit and loss	3.7	0.6	(0.3)	4.0
total investments	**1,121.4**	**22.4**	**(13.4)**	**1,130.4**

as at 31 december 2008	**$m**	**$m**	**$m**	**$m**
	cost or amortised cost	**gross unrealised gain**	**gross unrealised loss**	**estimated fair value**
fixed income securities				
- short-term investments	163.6	-	-	163.6
- U.S. treasuries	186.8	6.5	(1.6)	191.7
- other government bonds	52.5	1.6	-	54.1
- U.S. government agency debt	109.1	5.4	-	114.5
- U.S. government agency mortgage backed securities	600.0	15.3	(0.9)	614.4
- corporate bonds	306.6	3.8	(6.9)	303.5
- corporate bonds - FDIC guaranteed [(1)]	148.4	5.0	-	153.4
- convertible debt securities	0.2	-	-	0.2
total fixed income securities - available for sale	**1,567.2**	**37.6**	**(9.4)**	**1,595.4**
equity securities - available for sale	5.8	-	-	5.8
total available for sale securities	**1,573.0**	**37.6**	**(9.4)**	**1,601.2**
fixed income securities - at fair value through profit and loss	4.3	-	(0.3)	4.0
total investments	**1,577.3**	**37.6**	**(9.7)**	**1,605.2**

Equity securities and other investments are deemed non-current.

12. insurance and reinsurance contracts

insurance liabilities	$m unearned premiums	$m other payables	$m total
as at 31 december 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 30 june 2008	**407.6**	**15.9**	**423.5**
net deferral for:			
prior years	(88.3)	-	(88.3)
current year	20.3	-	20.3
other	-	1.7	1.7
as at 31 december 2008	**339.6**	**17.6**	**357.2**
net deferral for:			
prior years	(181.8)	-	(181.8)
current year	252.3	-	252.3
other	-	(0.7)	(0.7)
as at 30 june 2009	**410.1**	**16.9**	**427.0**

losses and loss adjustment expenses	**$m**	**$m**	**$m**
	losses and loss adjustment expenses	**reinsurance recoveries**	**net losses and loss adjustment expenses**
as at 31 december 2007	**179.6**	**(3.6)**	**176.0**
net incurred losses for:			
prior years	(4.1)	(2.4)	(6.5)
current year	144.1	(4.0)	140.1
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 30 june 2008	**304.6**	**(10.1)**	**294.5**
net incurred losses for:			
prior years	(21.9)	(0.2)	(22.1)
current year	300.7	(36.7)	264.0
exchange adjustments	(1.4)	0.1	(1.3)
incurred losses and loss adjustment expenses	**277.4**	**(36.8)**	**240.6**
net paid losses for:			
prior years	19.5	(0.4)	19.1
current year	33.7	(4.4)	29.3
paid losses and loss adjustment expenses	**53.2**	**(4.8)**	**48.4**
as at 31 december 2008	**528.8**	**(42.1)**	**486.7**
net incurred losses for:			
prior years	10.9	(11.8)	(0.9)
current year	84.7	(0.8)	83.9
exchange adjustments	1.0	-	1.0
incurred losses and loss adjustment expenses	**96.6**	**(12.6)**	**84.0**
net paid losses for:			
prior years	81.1	(5.5)	75.6
current year	0.7	-	0.7
paid losses and loss adjustment expenses	**81.8**	**(5.5)**	**76.3**
as at 30 june 2009	**543.6**	**(49.2)**	**494.4**

reinsurance assets and liabilities	**$m**	**$m**	**$m**	**$m**
	unearned premiums ceded	**amounts payable to reinsurers**	**other receivables**	**total**
as at 31 december 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 30 june 2008	**38.6**	**(32.8)**	**-**	**5.8**
net deferral for:				
prior years	(1.8)	-	-	(1.8)
current year	(26.8)	-	-	(26.8)
other	-	30.8	3.2	34.0
as at 31 december 2008	**10.0**	**(2.0)**	**3.2**	**11.2**
net deferral for:				
prior years	(9.4)	-	-	(9.4)
current year	25.3	-	-	25.3
other	-	(11.3)	(1.0)	(12.3)
as at 30 june 2009	**25.9**	**(13.3)**	**2.2**	**14.8**

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 $108.7 million (30 June 2008 - $60.9 million; 31 December 2008 - $105.8 million) increase in loss reserves. There was no change to reserving assumptions during the reporting periods.

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:

	30 jun 2009 $m	**30 jun 2008 $m**	**31 dec 2008 $m**
outstanding losses	298.6	132.3	303.4
additional case reserves	28.8	23.0	63.8
losses incurred but not reported	216.2	149.3	161.6
losses and loss adjustment expenses reserves	**543.6**	**304.6**	**528.8**

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

claims development

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable or adverse development on net losses and loss adjustment expenses from prior years was as follows:

	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
2006 accident year	3.5	0.1	(2.6)
2007 accident year	17.0	(6.6)	(26.0)
2008 accident year	(19.6)	-	-
total favourable (adverse) development	**0.9**	**(6.5)**	**(28.6)**

In the six months to 30 June 2009 there were no major loss events that impacted the Group. In September 2008, Hurricane Ike passed through the Gulf of Mexico oil fields, making landfall in the United States. Hurricane Ike was a very destructive storm, causing damage to and destruction of a significant number of oil platforms. For the year ended 31 December 2008, the Group reported net losses in relation to Hurricanes Gustav and Ike of $172.7 million, before reinstatement premiums, tax and other adjustments. The net financial impact after all adjustments was $152.9 million, of which $150.8 million related to Hurricane Ike. As at 30 June 2009, the estimated net financial impact of Hurricane Ike was $189.2 million, an increase of $38.4 million. $39.8 million, before tax, is included in the Group's net insurance losses in the six months to 30 June 2009, with $49.4 million in losses and loss adjustment expenses and $9.6 million in losses and loss adjustment expenses recoverable, bringing the total gross incurred loss to $253.4 million, or $201.5 million net. There have been no movements in the previously reported reinstatement premiums. Estimation of the ultimate liability of offshore losses is complex. Loss assessments require skilled loss adjusters. The availability of loss adjusters with the necessary expertise is scarce and large events put a further strain on this resource. A substantial degree of judgement is involved in assessing the ultimate cost of Hurricane Ike, and the amount could be materially different from that currently reported. The 90th percentile of the loss distribution for management's best estimate of $201.5 million for Hurricane Ike is $234.4 million with the 95th percentile being $245.7 million.

The adverse development on Ike is offset by favourable development on other prior accident year reserves for attritional losses plus reductions in a small number of reported losses, based on new information received from loss adjusters. These developments are individually insignificant.

13. letters of credit

The following letters of credit ("LOCs") have been issued from the Group's $200.0 million syndicated collateralised credit facility:

	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
issued to affiliates	61.9	61.9	61.9
issued to third parties	25.4	37.9	26.7

There was no outstanding debt under this facility at any reporting date. LOCs are required to be fully collateralised. As at 30 June 2009, $104.9 million (30 June 2008 - $113.2 million; 31 December 2008 - $118.0 million) of collateral had been posted to a trust account in relation to the facility, the beneficiaries of which are the banks who have issued LOCs on the Group's 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.

14. derivative financial instruments

Derivate instrument gains and losses recorded in the condensed interim consolidated statement of income and comprehensive income are as follows:

	30 jun 2009 $m	30 jun 2008 $m	31 dec 2008 $m
net other investment income	-	0.3	0.1
net realised gains (losses) and impairments	(1.6)	-	-
financing costs	(0.6)	0.1	(3.6)
total derivative (loss) gain	**(2.2)**	**0.4**	**(3.5)**

As at 30 June 2009 the Group's investments in convertible debt securities have been liquidated. As at 30 June 2008 and 31 December 2008 the derivative instrument portion of these securities was valued at $4.0 million and $nil respectively. Changes in the estimated fair value are included in net other investment income.

Refer to pages 16 and 17 in the risk disclosures section for the estimated fair value of the Group's TBA and futures contracts. Realised gains and losses on futures contracts are include in realised gains (losses) and impairments. The net impact of TBAs is $nil for all reporting periods.

The net fair value position owed by the Group in relation to the interest rate swap was $4.4 million (30 June 2008 - $1.8 million; 31 December 2008 - $4.9 million). The next cash settlement due on this instrument is $0.7 million (30 June 2008 - $0.3 million; 31 December 2008 - $0.5 million) and is due on 15 September 2009. The counter-party requires collateralisation of positions in excess of $2.0 million. The net impact from cash settlement and changes in estimated fair value is included in financing costs.

15. share capital

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

	share capital	
allocated, called up and fully paid	**number**	**$m**
as at 31 december 2007, 30 june 2008 and 31 december 2008	**182,283,095**	**91.1**
shares issued due to warrant exercise	219,968	0.1
as at 30 june 2009	**182,503,063**	**91.2**

	own shares	
	number	**$m**
as at 31 december 2007	**-**	**-**
shares repurchased and held in treasury	5,682,638	35.5
as at 30 june 2008	**5,682,638**	**35.5**
shares repurchased and held in treasury	3,750,530	22.5
as at 31 december 2008	**9,433,168**	**58.0**
shares repurchased by trust	671,443	4.9
shares distributed by trust	(541,480)	(3.9)
as at 30 june 2009	**9,563,131**	**59.0**

The net shares outstanding as at 30 June 2009 were 172,939,932 (30 June 2008 - 176,600,457; 31 December 2008 - 172,849,927).

No new share repurchase authorisations have been granted by the Board of Directors. An amount of $17.0 million of approved repurchase remains in place under the current authorisations. At the balance sheet date $0.2 million of proceeds from share repurchases were yet to be settled (30 June 2008 - $2.4 million; 31 December 2008 - $0.2 million).

On 20 February 2009, 219,968 shares were issued as part of a cashless exercise of 833,200 warrants (see note 16).

Further details of the shares repurchased and held in treasury and trust are provided in note 17.

16. warrants, options and restricted shares

Other reserves represents the Group's warrants, options and restricted shares.

warrants	**number**	**number**	**number**	**number**
	founders' warrants	**foundation warrants**	**management ordinary warrants**	**management performance warrants**
outstanding as at 31 december 2007	**25,303,917**	**648,143**	**11,433,465**	**6,822,283**
outstanding as at 30 june 2008	**25,303,917**	**648,143**	**11,433,465**	**6,822,283**
lapsed during the period	-	-	-	(2,932,201)
outstanding as at 31 december 2008	**25,303,917**	**648,143**	**11,433,465**	**3,890,082**
exercised during the period	(833,200)	-	-	-
outstanding as at 30 june 2009	**24,470,717**	**648,143**	**11,433,465**	**3,890,082**
exercisable as at 30 june 2009	**24,470,717**	**648,143**	**11,433,465**	**839,994**

options and restricted shares	**number**	**number**	**number**
	options	**ordinary restricted shares**	**exceptional restricted shares**
outstanding as at 31 december 2007	**6,979,339**	**-**	**-**
granted during the period	-	1,727,201	166,904
outstanding as at 30 june 2008	**6,979,339**	**1,727,201**	**166,904**
forfeited during the period	(86,039)	(18,914)	-
granted during the period	-	124,500	-
outstanding as at 31 december 2008	**6,893,300**	**1,832,787**	**166,904**
exercised during the period	(1,322,511)	-	-
forfeited during the period	(25,417)	(20,029)	-
granted during the period	-	2,286,875	-
outstanding as at 30 june 2009	**5,545,372**	**4,099,633**	**166,904**
exercisable as at 30 june 2009	**2,482,461**	**-**	**-**

17. own shares

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
shares repurchased and held in treasury	58.0	35.5	58.0
shares repurchased and held in trust	1.0	-	-
total	**59.0**	**35.5**	**58.0**

Refer to note 15 for the details of transactions in own shares.

The trustees of the Lancashire Holdings Employee Benefit Trust (the “EBT”) acquired LHL shares in accordance with the terms of that trust. At the balance sheet date $1.0 million for repurchases remains to be settled. The number of own shares held in trust at 30 June 2009 was 129,963 (30 June 2008 and 31 December 2008 - $nil). The number of own shares held in treasury at 30 June 2009 was 9,433,168 (30 June 2008 - 5,682,638; 31 December 2008 - 9,433,168).

On 27 March 2009 the Group made a cash donation of $1.0 million to the EBT as initial funding. On 14 May 2009 the Group entered into a Loan Facility Agreement (the “Facility”) with RBC Cees Trustee Limited, the Trustees of the EBT. The Facility is an interest free revolving credit facility under which the Trustee can request advances on demand within the terms of the facility, up to a maximum aggregate of $10.0 million. The Facility may only be used by the Trustees for the purpose of achieving the objectives of the EBT. As at 30 June 2009 the Group had made advances of $4.0 million to the EBT under the terms of the Facility.

18. earnings per share

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

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
profit for the period attributable to equity shareholders	147.1	135.8	97.5

	number of shares thousands	number of shares thousands	number of shares thousands
basic weighted average number of shares	172,937	181,463	177,468
potentially dilutive shares related to equity based compensation	13,075	7,710	7,451
diluted weighted average number of shares	186,012	189,173	184,919

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 performance warrants and ordinary restricted share awards, where relevant performance criteria have not been met, are not included in calculating dilutive shares. In addition, the options which are antidilutive are not included in the number of potentially dilutive shares. Unvested restricted shares without performance criteria are included in the number of potentially dilutive shares.

19. related party disclosures

key management compensation

Remuneration for key management (the Group's three Executive Directors) is as follows:

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
short-term compensation	2.2	3.6	5.3
equity based compensation	2.3	3.8	5.8
total	**4.5**	**7.4**	**11.1**

transactions with directors and shareholders

Significant shareholders have a representation on the Board of Directors. Directors' fees and expenses paid are as follows:

	six months 2009 $m	six months 2008 $m	twelve months 2008 $m
directors' fees and expenses	0.8	1.0	1.6
monitoring fees	0.1	0.1	0.2
total	**0.9**	**1.1**	**1.8**

The directors' fees and expenses includes $0.4 million (30 June 2008 - $0.4 million; 31 December 2008 - $0.7 million) paid to significant shareholders. The monitoring fees are paid to significant founding shareholders.

transactions with the Lancashire Foundation

Cash donations to the Foundation have been approved by the Board of Directors as follows:

14 may 2009	$1.1 million
30 april 2008	$1.0 million

20. statutory requirements and dividend restrictions

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

as at 31 december 2008	$m	£m
	LICL	LUK
statutory capital and surplus	1,080.1	125.1
minimum required statutory capital and surplus	256.8	22.7

Interim unaudited statutory capital and surplus was as follows:

as at 30 june 2009	$m	£m
	LICL	LUK
statutory capital and surplus	1,217.8	112.5
minimum required statutory capital and surplus	150.6	25.4

as at 30 june 2008	$m	£m
	LICL	LUK
statutory capital and surplus	1,182.5	89.7
minimum required statutory capital and surplus	146.4	17.4

At all balance sheet dates the capital requirements of both regulatory jurisdictions were met.

21. subsequent event

On 28 July 2009 the Board of Directors authorised the payment of an interim ordinary dividend of $0.05 per common share to shareholders of record on 28 August 2009, with a settlement date of 7 October 2009. The total dividend payable will be approximately $10.5 million. The exercise price for unvested warrants will be adjusted downwards by the per share dividend amount. The Remuneration Committee has the discretionary power to adjust the exercise price of options issued under the LTIP to neutralise the devaluing impact of dividend payments. The Committee has not yet approved any such adjustment. An amount equivalent to the dividend accrues on all RSS awards and is paid at the time of vesting, pro-rata according to the number of RSS awards that vest.

22. presentation

Certain amounts in the 30 June 2009 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.

statement of directors responsibilities

The Directors confirm that this set of unaudited condensed interim consolidated financial statements has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and where IFRS is silent, as it is in respect of the measurement of insurance products, U.S. generally accepted accounting principles have been used and the interim management report herein includes a fair review of the information required by Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year) and DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

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INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS

LANCASHIRE HOLDINGS LIMITED

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Lancashire Holdings Limited and its subsidiaries (the "Group") as at June 30, 2009, comprising of the condensed interim consolidated balance sheet as at June 30, 2009 and the related condensed interim consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flow for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34") as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Ltd.

July 28, 2009
Hamilton, Bermuda