LANCASHIRE HOLDINGS LIMITED

LANCASHIRE GROWS BOOK VALUE PER SHARE 6.9% IN Q2 2009, 9.9% YEAR TO DATE
COMBINED RATIO OF 35.4% IN Q2 2009, 57.9% YEAR TO DATE

29 July 2009
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Company") today announces its results for the second quarter of 2009 and the six month period ended 30 June 2009.

Financial highlights for the second quarter of 2009:

- Fully converted book value per share of $7.57 at 30 June 2009, compared to $7.08 at 31 March 2009, an increase of 6.9%;
- Gross written premiums of $241.9 million. Net written premiums of $238.7 million;
- Reported loss ratio of 5.8% and a combined ratio of 35.4%. Accident year loss ratio of 30.7%;
- Annualised total investment return of 2.4%;
- Net operating profit of $103.3 million, or $0.55 diluted operating earnings per share; and
- Net profit after tax of $106.4 million, or $0.57 diluted earnings per share.

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.

Richard Brindle, Group Chief Executive Officer, commented:

"I am pleased to report another good performance by Lancashire. We grew book value per share by 6.9% in the second quarter, delivering 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 second quarter of 35.4%. Our investments returned 2.4% on an annualised basis; a reasonable result given our conservative philosophy. Since our inception, Lancashire 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 Lancashire 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, Lancashire 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 quarter Lancashire 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, Lancashire 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 Company'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, Lancashire 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 0.7% 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.

Ceded premiums reduced by 77.6% in the three months to 30 June 2009 compared to the three months to 30 June 2008. 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 60.4% in the second quarter of 2009 compared to 81.4% in the same period in 2008 and 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 Company 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 three months to 30 June 2009, the Company 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 1.9% since 31 March 2009.

	Q2		**YTD**	
	2009	**2008**	**2009**	**2008**
	$m	**$m**	**$m**	**$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 $14.0 million for the second quarter, a modest increase of 8.5% on the second quarter of 2008 helped by an increase in invested assets. 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 $12.9 million for the quarter compared to $2.9 million for Q2 2008, and 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 1.3 years, AA+ and 3.3%, respectively, at 30 June 2008. At 31 March 2009, duration was 1.4 years, credit quality was AA+ and market yield was 1.9%.

The Company continues to hold a conservative portfolio, consistent with its long-term philosophy, with an emphasis on preserving capital. In the second quarter of 2009, the corporate bond allocation increased by 4.4%, bringing the total holding to 13.0% of invested assets. In addition, 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 of 55.9% fixed income assets, 4.7% equities and other, and 39.4% 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, are broadly consistent compared to the same periods in 2008, reflecting the Company'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.

Equity based compensation was $2.6 million in the second quarter of 2009 compared to $2.8 million in the same period last year. For the six months to 30 June 2009 and 2008 the charge 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. Lancashire will continue to review the appropriate level and composition of capital for the Company with the intention of managing capital to enhance risk-adjusted returns on equity.

Outlook

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

Further detail of our 2009 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

On 7 August 2009, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2009 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 Wednesday, 29 July 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 1950 / +1 718 354 1385 with the passcode 4248014. 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 Wednesday, 12 August 2009. The dial in number for the replay facility is +44 (0)20 7806 1970 / +1 718 354 1112 and the passcode is 4248014#. The replay facility can also be accessed at www.lancashiregroup.com

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Company’s website www.lancashiregroup.com.

consolidated balance sheet

	unaudited 30 june 2009	audited 31 december 2008
	$m	$m
assets		
cash and cash equivalents	418.1	413.6
accrued interest receivable	9.2	10.1
investments		
- fixed income securities		
- available for sale	1,738.1	1,595.4
- at fair value through profit and loss	-	4.0
- equity securities		
- available for sale	-	5.8
reinsurance assets		
- unearned premium ceded	25.9	10.0
- reinsurance recoveries	49.2	42.1
- other receivables	2.2	3.2
deferred acquisition costs	68.9	60.9
inwards premium receivable from insureds and cedants	255.4	187.3
other assets	30.2	156.6
total assets	2,597.2	2,489.0
liabilities		
insurance contracts		
- losses and loss adjustment expenses	543.6	528.8
- unearned premiums	410.1	339.6
- other payables	16.9	17.6
amounts payable to reinsurers	13.3	2.0
deferred acquisition costs ceded	1.5	1.9
other payables	62.3	195.6
long-term debt	130.7	130.8
total liabilities	1,178.4	1,216.3
shareholders' equity		
share capital	91.2	91.1
own shares	(59.0)	(58.0)
share premium	2.4	2.4
contributed surplus	757.3	758.2
accumulated other comprehensive income	25.9	27.6
other reserves	56.8	54.3
retained earnings	544.2	397.1
total shareholders' equity	1,418.8	1,272.7
total liabilities and shareholders' equity	2,597.2	2,489.0
basic book value per share	$8.20	$7.36
fully converted book value per share	$7.57	$6.89

consolidated income statement

(unaudited)

	quarter 2 2009 $m	quarter 2 2008 $m	ytd 2009 $m	ytd 2008 $m
gross premiums written	241.9	196.7	384.7	383.4
outwards reinsurance premiums	(3.2)	(14.3)	(46.8)	(59.1)
net premiums written	238.7	182.4	337.9	324.3
change in unearned premiums	(83.9)	(29.0)	(70.5)	(25.8)
change in unearned premiums ceded	(10.7)	(4.9)	15.9	19.0
net premiums earned	144.1	148.5	283.3	317.5
net investment income	14.0	12.9	27.5	30.6
net other investment income	-	0.8	-	0.3
net realised gains (losses) and impairments	2.3	(1.4)	10.3	6.1
net fair value gains (losses) on investments at fair value through profit and loss	-	(0.3)	0.3	(1.0)
share of loss of associate	-	(0.1)	-	(0.2)
net foreign exchange gains	2.3	-	0.7	0.3
total net revenue	162.7	160.4	322.1	353.6
insurance losses and loss adjustment expenses	6.5	73.1	95.6	140.0
insurance losses and loss adjustment expenses recoverable	1.9	(5.2)	(12.6)	(6.4)
net insurance acquisition expenses	27.6	24.5	53.6	50.5
equity based compensation	2.6	2.8	5.6	1.3
other operating expenses	15.0	15.0	27.4	26.7
total expenses	53.6	110.2	169.6	212.1
results of operating activities	109.1	50.2	152.5	141.5
financing costs	1.9	0.4	4.3	5.3
profit before tax	107.2	49.8	148.2	136.2
tax charge (credit)	0.8	(1.4)	1.1	0.4
profit for the period attributable to equity shareholders	106.4	51.2	147.1	135.8
net change in unrealised (losses) gains on investments	(3.5)	(9.5)	(1.8)	(11.8)
tax on net change in unrealised (losses) gains on investments	0.1	0.4	0.1	0.2
other comprehensive (loss) income	(3.4)	(9.1)	(1.7)	(11.6)
total comprehensive income attributable to equity shareholders	103.0	42.1	145.4	124.2
net loss ratio	5.8%	45.7%	29.3%	42.1%
net acquisition cost ratio	19.2%	16.5%	18.9%	15.9%
administrative expense ratio	10.4%	10.1%	9.7%	8.4%
combined ratio	35.4%	72.3%	57.9%	66.4%
basic earnings per share	$0.62	$0.28	$0.85	$0.75
diluted earnings per share	$0.57	$0.27	$0.79	$0.72
change in fully converted book value per share	6.9%	3.0%	9.9%	8.8%

consolidated cash flow statement

	unaudited six months 2009 $m	unaudited six months 2008 $m	audited twelve months 2008 $m
cash flows from operating activities			
profit before tax	148.2	136.2	97.6
Adjustments for :			
tax paid	(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)
amortisation of fixed income securities	2.9	(0.6)	-
equity based compensation	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	-	(0.3)	(0.1)
net realised (gains) losses and impairments	(10.3)	(6.1)	11.0
net fair value (gains) losses on investments at fair value through profit and loss	(0.3)	1.0	0.6
unrealised (gains) losses on interest rate swaps	(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	(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	**418.1**	**764.7**	**413.6**

About Lancashire

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. Its insurance subsidiaries carry the Lancashire group rating of A minus (Excellent) from A.M. Best with a stable outlook. Lancashire has capital in excess of $1 billion and its Common Shares trade on 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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THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN OUR UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; LOSS OF KEY PERSONNEL; A DECLINE IN OUR OPERATING SUBSIDIARIES' RATING WITH A.M. BEST COMPANY AND/OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT CREATED BY THE FINANCIAL MARKETS AND CREDIT CRISIS; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; AND THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS. ANY ESTIMATES RELATING TO LOSS EVENTS INVOLVE THE EXERCISE OF CONSIDERABLE JUDGEMENT AND REFLECT A COMBINATION OF GROUND-UP EVALUATIONS, INFORMATION AVAILABLE TO DATE FROM BROKERS AND INSUREDS, MARKET INTELLIGENCE, INITIAL AND/OR TENTATIVE LOSS REPORTS AND OTHER SOURCES. JUDGEMENTS IN RELATION TO NATURAL CATASTROPHE AND MAN MADE EVENTS INVOLVE COMPLEX FACTORS POTENTIALLY CONTRIBUTING TO THESE TYPES OF LOSS, AND WE CAUTION AS TO THE PRELIMINARY NATURE OF THE INFORMATION USED TO PREPARE ANY SUCH ESTIMATES.

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