lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2011

Contents

Financial highlights

	30 Jun 2011	30 Jun 2010	31 Dec 2010
Fully converted book value per share	$7.96	$7.86	$7.57
Return on equity - ytd	6.5%	7.5%	23.3%
Operating return on equity - ytd	7.0%	6.3%	20.9%

	Six months ended 30 Jun 2011	Six months ended 30 Jun 2010	Twelve months ended 31 Dec 2010
Highlights ($m)			
Gross premiums written	379.8	460.1	689.1
Net premiums written	329.1	422.2	649.9
Net profit after tax	97.5	93.0	330.8
Net operating profit	93.2	85.7	306.5
Share repurchases	-	100.3	136.4
Per share data			
Fully diluted earnings per share	0.56	$0.52	$1.86
Fully diluted earnings per share - operating	0.53	$0.48	$1.73
Financial ratios			
Total investment return	1.8%	2.6%	4.2%
Annualised total investment return	3.6%	5.3%	4.2%
Net loss ratio	38.2%	50.9%	27.0%
Combined ratio	69.5%	77.4%	54.4%
Accident year loss ratio	73.0%	66.2%	42.9%

Dividends

Type	Per share amount	Record date	Payment date	$m
Special	$1.25	20 Nov 2009	6 Jan 2010	263.0
Final	$0.10	19 Mar 2010	14 Apr 2010	20.8
Interim	$0.05	3 Sep 2010	13 Oct 2010	9.4
Special	$1.40	10 Dec 2010	19 Jan 2011	264.0
Final	$0.10	18 Mar 2011	20 Apr 2011	18.9
Interim	$0.05	26 Aug 2011	28 Sep 2011	9.6

Richard Brindle, Group Chief Executive Officer, commented:

"I am proud to report another strong performance by Lancashire generating an RoE of 6.5% for the first half of 2011. Lancashire has now increased book value per share, including dividends, for twenty-one out of the twenty-two quarters since its inception in 2005, delivering a compound annual return of 19.9%. The results for the year so far and our long-term performance demonstrate the benefits of Lancashire's approach to underwriting. The quality of our underwriting team and our underwriting process, particularly the daily Lancashire underwriting call, remain key to our success.

We have seen a series of significant catastrophe losses during the first half of 2011, including the Japanese and New Zealand earthquakes, floods in Australia and a series of U.S. tornadoes. Given the impact of these events on the industry we are pleased to report a combined ratio of 69.5% for the year to date. Lancashire's investments produced a return of 1.8%.

Another noteworthy development is the release of version 11 of the RMS model for U.S. wind storm risk. RMS11 is fully embedded in all Lancashire's underwriting and risk measurement. The move to RMS11 had some bearing on the increase in U.S. wind PML from previous year end. Offset against this were ongoing portfolio optimisation actions. The best example of this was in Florida-exposed risks, where property catastrophe pricing had increased by a headline number of 5 to 15% but when analysed on a risk adjusted basis, we believe this was a reduction, in many cases a substantial one at that. As such, we no longer reinsure any Florida domiciled homeowners companies. International property catastrophe business has seen significant improvements in pricing and we have increased our exposure, most notably in Japanese and New Zealand property catastrophe.

In our energy lines, we have continued to see modest but consistent rate rises. Although we are seeing more energy business, the market has not yet moved to a level where Lancashire would look to significantly expand this area of its portfolio.

The loss events of the first half of the year have led to some improved areas of pricing, and the market is now better overall than we had anticipated at the beginning of the year. Lancashire is well positioned to increase its appetite if we do see strong growth in premium rates."

Elaine Whelan, Group Chief Financial Officer, commented:

"Against the backdrop of the level of risk and catastrophe losses impacting our industry so far this year, we are delighted to have performed so well. The losses we have incurred have been well within expectations for the loss events and we had minimal exposure to the second quarter catastrophes. With the retro market developing much as we expected, our Accordion sidecar vehicle got off to a great start. Capital calls were made for June and July incepting contracts. We have a strong capital base heading into the U.S. wind season and the outcome of that will be an important driver of future market conditions and therefore future capital levels. Should market conditions continue to improve, we expect to be able to fully utilise our capital to generate superior underwriting returns. We will monitor developments closely, deploying our capital to the best opportunities.

On the investment side, we began investing in equities earlier this year as a risk management response to the dramatic drop in bond values in the fourth quarter of 2010. We are therefore happy to report an investment return of 1.8% for the year to date, with our portfolio performing largely as expected in the continued volatile markets.

Lastly, we were delighted to receive an upgrade to an A rating with a stable outlook from A.M. Best in June."

Lancashire Renewal Price Index for major classes

Lancashire's RPI is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative change in price, terms, conditions and limits and is weighted by premium volume (see "Note regarding RPI tool" at the end of this section for further guidance). The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2010:

Class	30 Jun 2011 %
Aviation (AV52)	96
Gulf of Mexico energy	101
Energy offshore worldwide	111
Marine	99
Direct and facultative	101
Property reinsurance	103
Terrorism	93
Combined	**102**

Underwriting results

Gross premiums written	Six months ended 30 Jun 2011 $m	Six months ended 30 Jun 2010 $m	Change $m	Change %
Property	165.2	225.7	(60.5)	(26.8)
Energy	152.1	159.0	(6.9)	(4.3)
Marine	44.2	56.1	(11.9)	(21.2)
Aviation	18.3	19.3	(1.0)	(5.2)
Total	**379.8**	**460.1**	**(80.3)**	**(17.5)**

Gross premiums written decreased by 17.5% in the first six months of 2011 compared to the same period in 2010.

The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 26.8% in the first six months of 2011 compared to the first six months of 2010. A substantial part of the reduction is driven by the terrorism and political risk books. Several multi-year deals written in 2010 are not currently up for renewal as these contracts continue to earn out. While multi-year contracts are typical in these classes, new business volumes this year are also lower, particularly in political and sovereign risk, given the current global climate. The property catastrophe reinsurance book was significantly affected by the after effects of the Tohoku earthquake, with some April Japanese renewals deferred to July 1. These extensions were largely offset by new business opportunities in both Japan and New Zealand, following the losses incurred in both those locations. Premiums for the year to date remain behind the same period in 2010 due to the impact of multi-year contracts written in the first quarter of 2010 not being up for renewal yet. While the property retrocession book was significantly reduced in the first quarter of 2011 relative to the first quarter of 2010 due to declining pricing and terms and conditions, the second quarter brought substantially improved trading conditions following the accumulation of industry losses. Lancashire launched its sidecar vehicle, Accordion, to take advantage of those improvements and as a result, several new deals were written. The first six months of 2011 also included $5.5 million of reinstatement premiums compared to $13.8 million in 2010. Otherwise, the recent trend of declining prices in property direct and facultative has also begun to reverse and, while volumes for the year to date are behind the prior year, the reduction is less than anticipated at the beginning of the year.

Energy gross premiums written decreased by 4.3% in the first six months of 2011 compared to the first six months of 2010. Overall energy premiums are broadly flat year on year. However, worldwide offshore volumes were considerably higher relative to the first six months of 2010, driven by rate and exposure changes following the Deepwater Horizon and Gryphon losses. Conversely, Gulf of Mexico volumes were behind due to a number of large multi-year contracts written in the second quarter of 2010 which are not up for renewal yet. Nonetheless, a reasonable level of new business flow occurred, with some of this also written on a multi-year basis.

Marine gross premiums written decreased by 21.2% in the first six months of 2011 compared to the first six months of 2010. These reductions are primarily due to the timing of multi-year deals written in the same period in the prior year that are not currently up for renewal offset by a few opportunistic marine retrocession deals in the post Deepwater Horizon market.

Aviation gross premiums written decreased by 5.2% in the first six months of 2011 compared to the first six months of 2010. While pricing and renewal rates remain under some pressure, the first half of the year is not a major renewal period for the aviation sector and volumes are relatively light.

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Ceded reinsurance premiums increased by $12.8 million, or 33.8%, for the six-month period to 30 June 2011 compared to the same period in 2010. The Group renewed its reinsurance programs in line with 2010, purchasing some additional catastrophe cover on its U.S. property direct and facultative portfolio. Rate increases on our outwards marine and energy reinsurance program following the Deepwater Horizon loss, plus reinstatement following the Gryphon Energy loss, were largely offset by reductions across the remainder of our program. Cessions from the property retrocession book to the Accordion sidecar facility commenced following the vehicle's launch prior to the June 1 renewals.

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Net premiums earned as a proportion of net premiums written were 87.4% in the six months to 30 June 2011, compared to 74.9% in the same period in 2010. The combination of the increased premium volume and a number of multi-year deals in the first half of 2010 compared to 2011 resulted in a lag in premium earnings into 2011.

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The Group's net loss ratio was 38.2% for the six month period to 30 June 2011 compared to 50.9% for 2010. The Group incurred total estimated net losses, after reinsurance and reinstatement premiums, of $89.8 million in relation to the Tohoku and Christchurch Lyttleton earthquakes. The Group has immaterial losses in relation to the U.S. Tornadoes and the June New Zealand earthquake. The first half of 2010 included an estimated net loss of $97.5 million in relation to the Chilean earthquake. Absent these losses, the net loss ratio would have been 5.2% for 2011 and 16.2% for 2010. Significant uncertainty exists on the eventual ultimate loss in relation to earthquakes.

Prior year favourable development of $96.9 million, compared to $56.1 million for the first half of 2010, reduced the net loss ratio by 33.7 points for 2011, and 17.7 points for 2010. In early 2011 an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with the industry factors previously used. On completion net reserves of $36.9 million were released.

The table below provides further detail of prior year's loss development by class, excluding the impact of foreign exchange revaluations:

	Six months ended 30 Jun 2011 $m	**Six months ended 30 Jun 2010 $m**
Property	35.3	28.3
Energy	35.4	16.9
Marine	20.7	6.1
Aviation	5.5	4.8
Total (1)	**96.9**	**56.1**

(1) Positive numbers denote favourable development.

The year to date accident year loss ratio, including the impact of foreign exchange revaluations, was 73.0% compared to 66.2% for the six months to 30 June 2010. The 2011 accident year loss ratio reflects the impact of estimated expected losses from the Tohoku and Christchurch Lyttleton earthquakes and the Gryphon FPSO loss, offset by a low level of reported losses. The 2011 accident year loss ratio for the six months to 30 June 2011 included:

- 25.2% for the Tohoku earthquake;
- 17.5% for the Gryphon FPSO loss; and
- 6.7% for the Christchurch Lyttleton earthquake.

The 2010 accident year loss ratio for the six months to 30 June 2010 included:

- 33.9% for the Chilean earthquake; and
- 9.1% for Deepwater Horizon.

Otherwise, both years experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, during the first half of 2011 previous accident years' ultimate losses developed as follows:

- 2006 - favourable development of $1.8 million (2010 - $0.9 million);
- 2007 - favourable development of $9.8 million (2010 - $1.3 million);
- 2008 - favourable development of $15.4 million (2010 - $26.3 million);
- 2009 - favourable development of $26.2 million (2010 - $27.6 million); and
- 2010 - favourable development of $43.7 million (2009 - N/A).

The ratio of IBNR to total net reserves was 27.9% compared to 38.4% at 31 December 2010.

Investments

The Group continues to hold a relatively conservative investment portfolio, consistent with its long-held philosophy and a strong emphasis on preserving capital. In anticipation of rising interest rates in 2011, the Group has maintained a low duration and added a small allocation to equity securities. The managed portfolio was as follows:

	30 Jun 2011 %	**31 Dec 2010 %**
Fixed income securities	78.2	78.1
Cash and cash equivalents	18.2	21.9
Equity securities	3.6	-
Total	**100.0**	**100.0**

Key investment portfolio statistics are:

	30 Jun 2011	**31 Dec 2010**
Duration	1.8 years	2.2 years
Credit quality	AA	AA
Book yield	2.2%	2.4%
Market yield	1.6%	1.9%

Net investment income, excluding realised and unrealised gains and losses, was $23.8 million for the first half of 2011, a decrease of 13.8% from the same period in 2010. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses was $32.8 million for the 2011 year to date versus $53.2 million for the same period in 2010. Comparative returns were lower than 2010 due to the investment portfolio duration being reduced and a lower yield environment. The portfolio duration was reduced by approximately half a year in order to reduce exposure to interest rates. The Group continues to hold an emerging market debt portfolio. Currently 7.3% of the portfolio is allocated to emerging markets with an overall average credit quality of BBB. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represented 32.6% of managed invested assets at 30 June 2011 compared to 27.7% at 30 June 2010.

Other operating expenses

Other operating expenses, excluding employee remuneration, are broadly consistent compared with the same period in 2010, reflecting the Group's stable operating platform. Excluding a reduction of $6.7 million for the prior year in relation to the final determination of the previous year's variable compensation and equity based compensation, total employment costs were $21.5 million for both six month periods.

Equity based compensation for the six months to 30 June 2011 and 2010 was $12.2 million and $10.6 million respectively. The increase in the 2011 expense reflects the maturing restricted share awards program, plus an increase in vesting assumptions given the Group's performance and an increase in the proportion of employees' variable compensation provided as deferred shares. The restricted share program began in 2008.

Capital

At 30 June 2011, total capital was $1.512 billion, comprising shareholders' equity of $1.380 billion and $131.5 million of long-term debt. Leverage was 8.7%. Total capital at 31 December 2010 was $1.416 billion.

Repurchase program

At the Annual General Meeting held on 5 May 2011 the shareholders approved a renewed share repurchase program with such authority to expire at the conclusion of the 2012 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the renewed share repurchase program was passed.

There were no shares repurchased during the first six months of 2011 compared to $100.3 million of shares repurchased in the same period of 2010. The share repurchase program had 16,860,242 shares of the authorised maximum of 16,860,242 remaining to be purchased at 30 June 2011.

Dividends

The Lancashire Board has declared an interim dividend of 5.0 cents per common share (approximately 3.0 pence per common share at the current exchange rate), which results in an aggregate payment of approximately $7.8 million (the "Interim Dividend"). The Interim Dividend will be paid in Pounds Sterling on 28 September 2011 (the "Interim Dividend Payment Date") to shareholders of record on 26 August 2011 (the "Record Date") using the GBP£/US$ spot market exchange rate at the close of business in London on the Record Date.

In accordance with the terms of Lancashire's warrants, a payment equivalent to the Interim Dividend to shareholders will also be paid in Pounds Sterling on 28 September 2011 to those warrant holders listed on the Company's Warrant Register as of the Record Date. The warrant payment will be made in respect of the number of common shares for which each warrant is exercisable as at the Record Date (approximately $1.8 million in aggregate).

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.

Note regarding RPI tool

Lancashire's RPI is an internal tool that its management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The calculation involves a degree of judgement in relation to comparability of contracts and the assessment noted above. To enhance the RPI tool, management of Lancashire may revise the methodology and assumptions underlying the RPI, so the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in Lancashire's portfolio. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates.

Ratings

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. The Group companies carry the following ratings:

	Financial Strength Rating (1)	**Long Term Issuer Rating** (2)	**Outlook**
A.M. Best	A	bbb	Stable
Standard & Poor's	A-	BBB	Stable
Moody's	A3	Baa2	Stable

(1) Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.
(2) Long Term Issuer Rating applies to Lancashire Holdings Limited.

Condensed interim consolidated statement of comprehensive income

For the six months ended 30 June 2011

	Notes	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Gross premiums written	1	379.8	460.1	689.1
Outwards reinsurance premiums	1	(50.7)	(37.9)	(39.2)
Net premiums written		**329.1**	**422.2**	**649.9**
Change in unearned premiums	1	(67.9)	(120.4)	(33.0)
Change in unearned premiums on premiums ceded	1	26.3	14.6	(2.7)
Net premiums earned		**287.5**	**316.4**	**614.2**
Net investment income	2	23.8	27.6	53.4
Net other investment income	2	-	-	0.1
Net realised gains (losses) and impairments	2	5.0	12.8	33.2
Net foreign exchange gains (losses)		0.9	(3.6)	(0.1)
Total net revenue		**317.2**	**353.2**	**700.8**
Insurance losses and loss adjustment expenses	1, 11	122.7	192.6	194.7
Insurance losses and loss adjustment expenses recoverable	1, 11	(12.9)	(31.7)	(29.0)
Net insurance losses		**109.8**	**160.9**	**165.7**
Insurance acquisition expenses	1, 3	52.3	55.2	109.9
Insurance acquisition expenses ceded	1, 3	(0.7)	(0.9)	(3.6)
Other operating expenses	4, 5	38.6	29.4	61.8
Equity based compensation	5	12.2	10.6	21.1
Total expenses		**212.2**	**255.2**	**354.9**
Results of operating activities		**105.0**	**98.0**	**345.9**
Financing costs	6	5.6	3.4	6.7
Profit before tax		**99.4**	**94.6**	**339.2**
Tax charge	7	1.9	1.6	8.4
Profit for the period attributable to equity shareholders		**97.5**	**93.0**	**330.8**
Net change in unrealised gains (losses) on investments	2, 9	4.4	13.3	(2.0)
Tax expense on net change in unrealised gains (losses) on investments	7, 9	(0.4)	(0.5)	(0.2)
Other comprehensive income (loss)		**4.0**	**12.8**	**(2.2)**
Total comprehensive income attributable to equity shareholders		**101.5**	**105.8**	**328.6**
Earnings per share				
Basic	17	$0.64	$0.56	$2.08
Diluted	17	$0.56	$0.52	$1.86

Condensed interim consolidated balance sheet

As at 30 June 2011

	Notes	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
Assets				
Cash and cash equivalents	8, 15	448.9	268.7	512.5
Accrued interest receivable		11.8	12.9	13.4
Investments				
- Fixed income securities, available for sale	9, 15	1,637.3	1,836.9	1,719.1
- Fixed income securities, at fair value through profit and loss	9	8.6	-	-
- Equity securities, available for sale	9	75.2	-	-
- Other investments	9	(0.4)	1.1	(0.2)
Reinsurance assets				
- Unearned premiums on premiums ceded	10	29.2	20.2	2.9
- Reinsurance recoveries	11	46.1	47.8	35.9
- Other receivables	10	0.1	2.0	5.6
Deferred acquisition costs		70.5	74.8	61.2
Other receivables		10.3	14.0	45.7
Inwards premiums receivable from insureds and cedants		292.6	285.4	217.5
Deferred tax asset	12	7.7	3.7	6.4
Investment in associate	13	7.5	-	-
Property, plant and equipment		6.8	8.0	7.4
Total assets		**2,652.2**	**2,575.5**	**2,627.4**
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	11	576.7	583.7	507.5
- Unearned premiums	14	418.5	438.0	350.6
- Other payables	14	19.7	19.6	20.6
Amounts payable to reinsurers	10	22.8	12.7	4.4
Deferred acquisition costs ceded		1.2	2.8	0.1
Other payables		97.7	27.0	321.4
Corporation tax payable		1.7	2.3	6.3
Interest rate swap		2.0	2.2	0.8
Long-term debt		131.5	126.3	128.8
Total liabilities		**1,271.8**	**1,214.6**	**1,340.5**
Shareholders’ equity				
Share capital	16	84.3	86.7	84.3
Own shares	16	(90.5)	(117.1)	(106.9)
Share premium		2.4	2.4	2.4
Contributed surplus		659.6	699.1	662.6
Accumulated other comprehensive income	9	32.2	43.2	28.2
Other reserves		68.2	65.4	70.7
Retained earnings		624.2	581.2	545.6
Total shareholders' equity attributable to equity shareholders		**1,380.4**	**1,360.9**	**1,286.9**
Total liabilities and shareholders' equity		**2,652.2**	**2,575.5**	**2,627.4**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 26 July 2011 and signed on its behalf by:

MARTIN THOMAS
DIRECTOR/CHAIRMAN

NEIL McCONACHIE
DIRECTOR/PRESIDENT

Condensed interim consolidated statement of changes in shareholders' equity

For the six months ended 30 June 2011

	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 2009		**91.2**	**(76.4)**	**2.4**	**757.0**	**30.4**	**65.3**	**509.0**	**1,378.9**
Total comprehensive income for the period	9	-	-	-	-	12.8	-	93.0	105.8
Shares repurchased and held in treasury	16	-	(36.5)	-	-	-	-	-	(36.5)
Shares repurchased and held in trust	16	-	(13.0)	-	-	-	-	-	(13.0)
Shares repurchased and cancelled	16	(4.5)	-	-	(59.3)	-	-	-	(63.8)
Distributed by trust	16	-	8.8	-	(8.8)	-	-	-	-
Dividends	16, 19	-	-	-	-	-	-	(20.8)	(20.8)
Equity based compensation - exercises		-	-	-	10.5	-	(10.5)	-	-
Equity based compensation - expense	5	-	-	-	(0.3)	-	10.6	-	10.3
Balance as at 30 June 2010		**86.7**	**(117.1)**	**2.4**	**699.1**	**43.2**	**65.4**	**581.2**	**1,360.9**
Total comprehensive income for the period	9	-	-	-	-	(15.0)	-	237.8	222.8
Shares repurchased and held in treasury	16	-	3.9	-	-	-	-	-	3.9
Shares repurchased and cancelled	16	(2.4)	-	-	(37.4)	-	-	-	(39.8)
Distributed by trust	16	-	7.8	-	(7.8)	-	-	-	-
Shares donated to trust	16	-	(1.5)	-	1.5	-	-	-	-
Dividends	16, 19	-	-	-	-	-	-	(273.4)	(273.4)
Equity based compensation - exercises		-	-	-	7.2	-	(7.2)	-	-
Equity based compensation - expense	5	-	-	-	-	-	10.5	-	10.5
Equity based compensation - tax	7	-	-	-	-	-	2.0	-	2.0
Balance as at 31 December 2010		**84.3**	**(106.9)**	**2.4**	**662.6**	**28.2**	**70.7**	**545.6**	**1,286.9**
Total comprehensive income for the period	9	-	-	-	-	4.0	-	97.5	101.5
Distributed by trust	16	-	21.0	-	(24.3)	-	-	-	(3.3)
Shares donated to trust	16	-	(7.2)	-	7.2	-	-	-	-
Dividends	16	-	-	-	-	-	-	(18.9)	(18.9)
Warrant exercises - founders		-	2.6	-	(0.4)	-	(2.2)	-	-
Equity based compensation - exercises		-	-	-	14.5	-	(14.5)	-	-
Equity based compensation - expense	5	-	-	-	-	-	12.2	-	12.2
Equity based compensation - tax	7	-	-	-	-	-	2.0	-	2.0
Balance as at 30 June 2011		**84.3**	**(90.5)**	**2.4**	**659.6**	**32.2**	**68.2**	**624.2**	**1,380.4**

Condensed interim statement of consolidated cash flows
For the six months ended 30 June 2011

	Notes	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Cash flows from operating activities				
Profit before tax		99.4	94.6	339.2
Tax paid		(6.4)	(2.7)	(5.8)
Depreciation	4	1.4	1.3	2.6
Interest expense on long-term debt		2.8	2.7	5.4
Interest and dividend income		(29.0)	(34.2)	(68.3)
Net amortisation of fixed income securities		3.1	4.7	11.0
Equity based compensation	5	12.2	10.6	21.1
Foreign exchange losses (gains)		0.1	2.4	(2.1)
Net other investment income	2	-	-	(0.1)
Net realised (gains) losses and impairments	2	(5.0)	(12.8)	(33.2)
Net unrealised loss (gain) on interest rate swaps		1.3	(1.4)	(2.8)
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		34.7	77.2	9.0
- Other assets and liabilities		73.0	(14.1)	(7.2)
Net cash flows from operating activities		**187.6**	**128.3**	**268.8**
Cash flows from investing activities				
Interest and dividends received		30.6	33.3	66.9
Net purchase of property, plant and equipment		(0.8)	(1.3)	(2.3)
Investment in associate	13	(7.5)	-	-
Purchase of fixed income securities		(801.6)	(1,368.5)	(2,635.5)
Purchase of equity securities		(76.4)	-	-
Proceeds on maturity and disposal of fixed income securities		882.7	1,443.5	2,828.5
Proceeds on disposal of equity securities		2.0	-	-
Net proceeds from other investments		(0.6)	0.6	1.6
Net cash flows from investing activities		**28.4**	**107.6**	**259.2**
Cash flows used in financing activities				
Interest paid		(2.8)	(2.7)	(5.4)
Dividends paid	16, 19	(282.9)	(283.8)	(293.2)
Share repurchases	16, 19	-	(112.1)	(149.5)
Distributions by trust		(3.3)	-	-
Net cash flows used in financing activities		(289.0)	**(398.6)**	**(448.1)**
Net (decrease) increase in cash and cash equivalents		**(73.0)**	**(162.7)**	**79.9**
Cash and cash equivalents at beginning of period		512.5	440.0	440.0
Effect of exchange rate fluctuations on cash and cash equivalents		9.4	(8.6)	(7.4)
Cash and cash equivalents at end of period	8	**448.9**	**268.7**	**512.5**

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 2011. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2010, 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 U.S. dollars.

While a number of new or amended IFRS and IFRIC standards have been issued, there are no standards that have had a material impact on the Group.

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's project. A standard is scheduled to be released by the end of 2012, with potential implementation in 2015. It will include a number of significant changes regarding the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, which has been issued but is not yet effective, has not been early adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed income and equity securities as available for sale. The new standard is not expected to have a material impact on the results and disclosures reported in the condensed interim consolidated financial statements. It would however, result in a re-classification of fixed income securities and equity from available for sale to estimated fair value through profit or loss and a re-classification of the net change in unrealised gains and losses on investments from accumulated other comprehensive income to income.

IFRS 10, Consolidated Financial Statements, issued in May 2011, redefines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements. IFRS 12, Disclosure of Involvement with Other Entities, was issued concurrently and sets out the disclosure requirements for consolidated financial statements. Both standards are effective from 1 January 2013 and are not expected to have a material impact on the Group's results, although enhanced disclosures may be required.

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

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

Basis of consolidation

Associates

Investments, in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income and loss from such investments in its results of operations for the period. Adjustments are made to associates' accounting policies, where necessary, in order to be consistent with the Group's accounting policies.

Financial instruments

Investments

The Group's equity securities are quoted investments that are classified as available for sale and are carried at estimated fair value.

Equity securities are recognised at estimated fair value less transaction costs on the trade date and are subsequently carried at estimated fair value. The estimated fair values of quoted equities are determined based on bid prices from recognised exchanges. Equity investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. Realised gains and losses are included in income in the period in which they arise. Unrealised gains and losses from changes in estimated fair value of available for sale equity investments are included in accumulated other comprehensive income in shareholders' equity. On derecognition of an equity investment, previously recorded unrealised gains and losses are removed from accumulated other comprehensive income in shareholders' equity and included in current period income.

The Group reviews the carrying value of its available for sale equity investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost where other factors do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost and estimated fair value is removed from accumulated other comprehensive income in shareholders' equity and charged to current period income. Impairment losses on equity securities are not subsequently reversed through income.

Dividends on equity securities are recorded as revenue on the date the dividends become payable to the holders of record.

Seasonality of interim operations

The Group underwrites worldwide short-tail insurance and reinsurance contracts that transfer insurance risk, 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 premiums 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, amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premium sufficient to meet likely losses and expenses.

The Group bears exposure to large losses arising from non-seasonal natural catastrophes, such as earthquakes, and also from risk losses throughout the year and from war, terrorism and political risk losses. On certain lines of business the Group's most significant exposures to catastrophe losses is greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period. This is broadly in line with the most active period of the North American windstorm season which is typically June to November. The Group is also exposed to Japanese and European windstorm seasons which are typically June to November and November to March, respectively. The majority of the premiums for these lines of business are written during the first half of the fiscal year.

Details of annual gross premiums written for the last two years are as follows:

	2010		2009	
	$m	**%**	**$m**	**%**
January to June	460.1	66.8	384.7	61.3
July to December	229.0	33.2	243.1	38.7
Total	**689.1**	**100.0**	**627.8**	**100.0**

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

		30 Jun 2011		30 Jun 2010		31 Dec 2010	
Zones	**Perils**	**$m**	**% of capital**	**$m**	**% of capital**	**$m**	**% of capital**
		100 year return period estimated net loss					
Gulf of Mexico [(1)]	Hurricane	273.2	18.1	253.2	17.0	250.7	17.7
Japan	Earthquake	109.0	7.2	123.5	8.3	130.9	9.2
Pan-European	Windstorm	107.9	7.1	132.9	8.9	141.1	10.0
California	Earthquake	97.9	6.5	128.6	8.6	110.9	7.8
Japan	Typhoon	84.5	5.6	84.4	5.7	92.8	6.6
Pacific North West	Earthquake	37.4	2.5	61.3	4.1	56.9	4.0

[(1)] Landing hurricane from Florida to Texas.

		30 Jun 2011		30 Jun 2010		31 Dec 2010	
Zones	**Perils**	**$m**	**% of capital**	**$m**	**% of capital**	**$m**	**% of capital**
		250 year return period estimated net loss					
Gulf of Mexico [(1)]	Hurricane	396.9	26.3	362.5	24.4	352.8	24.9
Japan	Earthquake	196.2	13.0	214.5	14.4	225.6	15.9
Pan-European	Windstorm	172.0	11.4	208.2	14.0	214.6	15.2
California	Earthquake	186.2	12.3	204.8	13.8	186.3	13.2
Japan	Typhoon	190.2	12.6	172.7	11.6	191.5	13.5
Pacific North West	Earthquake	125.0	8.3	223.5	15.0	209.0	14.8

[(1)] Landing hurricane from Florida to Texas.

There can be no guarantee that the modeled 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 loss scenario could cause a larger loss to capital than the modeled expectation.

Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 76 to 98 in the Group's Annual Report and Accounts for the year ended 31 December 2010. The risks that were discussed on those pages were:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

These remain the most relevant risks and uncertainties for the Group.

1. Segmental reporting

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 79 to 81 of the Group's Annual Report and Accounts for the year ended 31 December 2010. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties. There are no inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

Revenue and expense by operating segment - for the six months ended 30 June 2011

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	0.4	140.2	42.7	-	183.3
Worldwide, including the U.S. and Canada [(1)]	35.3	7.6	0.4	18.3	61.6
U.S. and Canada	46.7	1.2	-	-	47.9
Europe	21.0	0.5	0.5	-	22.0
Worldwide, excluding the U.S. and Canada [(2)]	16.7	0.5	(0.1)	-	17.1
Far East	11.1	-	-	-	11.1
Middle East	2.6	0.8	-	-	3.4
Rest of world	31.4	1.3	0.7	-	33.4
Total	**165.2**	**152.1**	**44.2**	**18.3**	**379.8**
Outwards reinsurance premiums	(25.0)	(18.6)	(3.3)	(3.8)	(50.7)
Change in unearned premiums	(19.1)	(49.6)	(6.7)	7.5	(67.9)
Change in unearned premiums ceded	15.7	7.3	1.5	1.8	26.3
Net premiums earned	**136.8**	**91.2**	**35.7**	**23.8**	**287.5**
Insurance losses and loss adjustment expenses	(81.2)	(49.7)	2.7	5.5	(122.7)
Insurance losses recoverable	-	12.7	0.2	-	12.9
Insurance acquisition expenses	(17.8)	(18.8)	(10.1)	(5.6)	(52.3)
Insurance acquisition expenses ceded	0.4	0.3	-	-	0.7
Net underwriting profit	**38.2**	**35.7**	**28.5**	**23.7**	**126.1**
Unallocated income and expenses					(26.7)
Profit before tax					**99.4**
Net loss ratio	59.4%	40.6%	(8.1%)	(23.1%)	38.2%
Net acquisition cost ratio	12.7%	20.3%	28.3%	23.5%	17.9%
Administrative expense ratio					13.4%
Combined ratio	**72.1%**	**60.9%**	**20.2%**	**0.4%**	**69.5%**

(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 U.S. and Canada.

Revenue and expense by operating segment - for the six months ended 30 June 2010

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	0.9	154.1	56.0	-	211.0
Worldwide, including the U.S. and Canada [1]	32.6	3.3	(0.1)	19.3	55.1
U.S. and Canada	90.8	0.4	-	-	91.2
Europe	32.1	0.1	-	-	32.2
Worldwide, excluding the U.S. and Canada [2]	33.5	0.1	0.1	-	33.7
Far East	12.2	0.1	0.1	-	12.4
Middle East	2.0	0.6	-	-	2.6
Rest of world	21.6	0.3	-	-	21.9
Total	**225.7**	**159.0**	**56.1**	**19.3**	**460.1**
Outwards reinsurance premiums	(18.5)	(12.7)	(1.2)	(5.5)	(37.9)
Change in unearned premiums	(46.1)	(64.2)	(20.9)	10.8	(120.4)
Change in unearned premiums ceded	11.4	1.5	(0.4)	2.1	14.6
Net premiums earned	**172.5**	**83.6**	**33.6**	**26.7**	**316.4**
Insurance losses and loss adjustment expenses	(106.3)	(67.3)	(23.6)	4.6	(192.6)
Insurance losses recoverable	-	31.7	-	-	31.7
Insurance acquisition expenses	(20.0)	(19.8)	(9.2)	(6.2)	(55.2)
Insurance acquisition expenses ceded	0.3	0.5	-	0.1	0.9
Net underwriting profit	**46.5**	**28.7**	**0.8**	**25.2**	**101.2**
Unallocated income and expenses					(6.6)
Profit before tax					**94.6**
Net loss ratio	61.6%	42.6%	70.2%	(17.2%)	50.9%
Net acquisition cost ratio	11.4%	23.1%	27.4%	22.8%	17.2%
Administrative expense ratio					9.3%
Combined ratio	**73.0%**	**65.7%**	**97.6%**	**5.6%**	**77.4%**

[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 U.S. and Canada.

Revenue and expense by operating segment - for the year ended 31 December 2010

Gross premiums written	**$m**	**$m**	**$m**	**$m**	**$m**
	Property	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	1.2	225.0	75.2	-	301.4
Worldwide, including the U.S. and Canada [(1)]	53.9	7.6	0.5	50.7	112.7
U.S. and Canada	133.3	2.6	-	-	135.9
Europe	42.9	0.3	0.2	0.1	43.5
Worldwide, excluding the U.S. and Canada [(2)]	40.6	0.2	0.1	-	40.9
Far East	15.9	0.3	0.4	-	16.6
Middle East	6.1	0.7	-	-	6.8
Rest of world	29.7	1.6	-	-	31.3
Total	**323.6**	**238.3**	**76.4**	**50.8**	**689.1**
Outwards reinsurance premiums	(18.9)	(13.9)	(0.9)	(5.5)	(39.2)
Change in unearned premiums	5.3	(38.8)	(6.9)	7.4	(33.0)
Change in unearned premiums ceded	1.7	(2.3)	(1.8)	(0.3)	(2.7)
Net premiums earned	**311.7**	**183.3**	**66.8**	**52.4**	**614.2**
Insurance losses and loss adjustment expenses	(108.7)	(66.0)	(25.8)	5.8	(194.7)
Insurance losses recoverable	-	29.0	-	-	29.0
Insurance acquisition expenses	(38.8)	(39.7)	(19.3)	(12.1)	(109.9)
Insurance acquisition expenses ceded	0.5	2.8	0.1	0.2	3.6
Net underwriting profit	**164.7**	**109.4**	**21.8**	**46.3**	**342.2**
Net unallocated income and expenses					(3.0)
Profit before tax					**339.2**
Net loss ratio	34.9%	20.2%	38.6%	(11.1%)	27.0%
Net acquisition cost ratio	12.3%	20.1%	28.7%	22.7%	17.3%
Administrative expense ratio					10.1%
Combined ratio	**47.2%**	**40.3%**	**67.3%**	**11.6%**	**54.4%**

[(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 U.S. and Canada.

2. Investment return

The total investment return for the Group is as follows:

For the six months ended 30 June 2011	**$m**	**$m**	**$m**	**$m**
	Investment income and other investment income	**Net realised gains (losses) and impairments**	**Net change in unrealised gains/losses**	**Total investment return**
Fixed income securities	23.1	4.9	3.5	31.5
Equity securities	0.3	-	0.9	1.2
Other investments	-	0.1		0.1
Cash and cash equivalents	0.4	-	-	0.4
Total investment return	**23.8**	**5.0**	**4.4**	**33.2**

For the six months ended 30 June 2010	**$m**	**$m**	**$m**	**$m**
	Investment income and other investment income	**Net realised gains (losses) and impairments**	**Net change in unrealised gains/losses**	**Total investment return**
Fixed income securities	27.1	12.2	13.3	52.6
Other investments	-	0.6	-	0.6
Cash and cash equivalents	0.5	-	-	0.5
Total investment return	**27.6**	**12.8**	**13.3**	**53.7**

For the year ended 31 December 2010	**$m**	**$m**	**$m**	**$m**
	Investment income and other investment income	**Net realised gains (losses) and impairments**	**Net change in unrealised gains/losses**	**Total investment return**
Fixed income securities	52.5	32.2	(2.0)	82.7
Other investments	0.1	1.0	-	1.1
Cash and cash equivalents	0.9	-	-	0.9
Total investment return	**53.5**	**33.2**	**(2.0)**	**84.7**

Net realised gains (losses) and impairments includes an impairment loss of $0.3 million (30 June 2010 and 31 December 2010 - $nil) recognised on fixed income securities held by the Group. Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments. The net impact of TBAs is $nil for all reporting periods.

Included in investment income is $2.1 million (30 June 2010 - $1.9 million; 31 December 2010 - $4.0 million) of investment management, accounting and custodian fees.

3. Net insurance acquisition expenses

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Insurance acquisition expenses	61.6	77.1	118.2
Changes in deferred insurance acquisition expenses	(9.3)	(21.9)	(8.3)
Insurance acquisition expenses ceded	(1.8)	(1.0)	(3.2)
Changes in deferred insurance acquisition expenses ceded	1.1	0.1	(0.4)
Total net insurance acquisition expenses	**51.6**	**54.3**	**106.3**

4. Results of operating activities

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

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Depreciation on owned assets	1.4	1.3	2.6
Operating lease charges	1.6	1.5	3.2
Auditors' remuneration			
- Group audit fees	0.8	0.6	1.3
- Other services	0.1	0.1	0.3
Total	**3.9**	**3.5**	**7.4**

Fees paid to the Group's auditors for other services are approved by the Group's Audit Committee.

5. Employee benefits

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Wages and salaries	9.6	9.3	19.0
Pension costs	0.7	0.7	1.5
Bonus and other benefits	11.0	4.3	12.7
Total cash compensation	**21.3**	**14.3**	**33.2**
RSS - ordinary	7.2	5.9	14.3
RSS - bonus deferral	1.8	0.4	1.0
RSS - exceptional	-	0.1	0.1
LTIP	3.2	3.8	5.3
Warrants - performance	-	0.4	0.4
Total equity based compensation	**12.2**	**10.6**	**21.1**
Total employee benefits	**33.5**	**24.9**	**54.3**

The Group's primary equity based compensation scheme is its RSS. Previously the Group also administered an LTIP and a warrant plan.

6. Financing costs

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Interest expense on long-term debt	2.8	2.7	5.4
Net change in unrealised gains/losses on interest rate swap	2.4	0.2	0.3
Other financing costs	0.4	0.5	1.0
Total	**5.6**	**3.4**	**6.7**

Refer to note 15 for details of financing arrangements.

7. Tax charge

Bermuda

LHL, LICL and LUK have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 28 March 2035. At the present time no such taxes are levied in Bermuda.

United States

The Group does not consider itself to be engaged in trade or business in the U.S. and, accordingly, does not expect to be subject to U.S. taxation on its income or capital gains.

United Kingdom

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

Dubai

There are currently no local Dubai or Federal (UAE) taxes payable on the profits or revenue of business operating in the UAE. Currently law states that DIFC establishments shall be subject to a zero tax rate until the year 2054.

Tax charge	**Six months 2011 $m**	**Six months 2010 $m**	**Twelve months 2010 $m**
Corporation tax charge for the period	2.1	2.0	8.9
Adjustments in respect of prior period corporation tax	-	-	1.0
Deferred tax credit for the period	(0.2)	(0.4)	(1.5)
Total tax charge	**1.9**	**1.6**	**8.4**

Tax reconciliation	**Six months 2011 $m**	**Six months 2010 $m**	**Twelve months 2010 $m**
Profit before tax	99.4	94.6	339.2
Less profit not subject to tax	(92.6)	(86.4)	(308.8)
Profits subject to tax	**6.8**	**8.2**	**30.4**
UK corporation tax at 26.5% (28.0%, 28.0%)	**1.8**	**2.3**	**8.5**
Adjustments in respect of prior period	-	-	1.0
Differences related to equity based compensation	(2.1)	(0.8)	(2.5)
Other expense permanent differences	0.2	0.1	(0.6)
Tax recognised directly in other reserves	2.0	-	2.0
Total tax charge	**1.9**	**1.6**	**8.4**

Due to the different tax paying jurisdictions throughout the Group the current tax charge as a percentage of the Group's profit before tax is 1.9% (30 June 2010 - 1.8%; 31 December 2010 - 2.5%).

A corporation tax credit of $0.8 million (30 June 2010 - $nil; 31 December 2010 - $0.4 million credit) is included in other reserves which relates to tax deductions for equity based compensation award exercises in excess of the cumulative expense at the reporting date. Refer to note 12 for further details of tax credits included in other reserves.

Refer to note 9 for details of the tax expense related to the net change in unrealised gains and losses on investments that is included in accumulated other comprehensive income within shareholders' equity.

8. Cash and cash equivalents

	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
Cash at bank and in hand	62.0	46.7	34.5
Cash equivalents	386.9	222.0	478.0
Total cash and cash equivalents	**448.9**	**268.7**	**512.5**

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

Refer to note 15 for details of the cash and cash equivalent balances on deposit as collateral.

9. Investments

As at 30 June 2011	**$m**	**$m**	**$m**	**$m**
	Cost or amortised cost	**Gross unrealised gain**	**Gross unrealised loss**	**Estimated fair value**
Fixed income securities				
- Short-term investments	45.9	-	(0.2)	45.7
- U.S. treasuries	246.9	4.5	(0.1)	251.3
- Other government bonds	174.6	4.7	(0.9)	178.4
- U.S. municipal bonds	21.5	0.6	-	22.1
- U.S. government agency debt	27.8	0.3	-	28.1
- Asset backed securities	72.5	0.6	-	73.1
- U.S. government agency mortgage backed securities	215.0	7.3	(0.1)	222.2
- Non-agency mortgage backed securities	24.6	0.1	-	24.7
- Agency commercial mortgage backed securities	1.1	-	-	1.1
- Non-agency commercial mortgage backed securities	23.3	1.1	-	24.4
- Corporate bonds	669.1	17.5	(1.0)	685.6
- Corporate bonds - FDIC guaranteed	79.4	1.2	-	80.6
Total fixed income securities - available for sale	**1,601.7**	**37.9**	**(2.3)**	**1,637.3**
Equity securities - available for sale	74.4	2.4	(1.6)	75.2
Total available for sale securities	**1,676.1**	**40.3**	**(3.9)**	**1,712.5**
Fixed income securities - at fair value through profit and loss	8.6	0.1	(0.1)	8.6
Other investments	(0.3)	1.6	(1.7)	(0.4)
Total investments	**1,684.4**	**42.0**	**(5.7)**	**1,720.7**

As at 30 June 2010	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	99.5	-	-	99.5
- U.S. treasuries	401.9	8.0	-	409.9
- Other government bonds	142.2	2.9	(0.7)	144.4
- U.S. municipal bonds	10.9	0.3	-	11.2
- U.S. government agency debt	35.5	1.0	-	36.5
- Asset backed securities	4.6	-	-	4.6
- U.S. government agency mortgage backed securities	370.8	14.9	-	385.7
- Non-agency mortgage backed securities	5.8	0.1	-	5.9
- Non-agency commercial mortgage backed securities	19.1	0.4	-	19.5
- Corporate bonds	563.3	16.5	(3.0)	576.8
- Corporate bonds - FDIC guaranteed	139.7	3.2	-	142.9
Total fixed income securities - available for sale	**1,793.3**	**47.3**	**(3.7)**	**1,836.9**
Other investments	-	1.9	(0.8)	1.1
Total investments	**1,793.3**	**49.2**	**(4.5)**	**1,838.0**

As at 31 December 2010	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	12.1	-	-	12.1
- U.S. treasuries	295.8	5.5	(0.8)	300.5
- Other government bonds	179.0	3.9	(1.5)	181.4
- U.S. municipal bonds	10.9	0.1	(0.1)	10.9
- U.S. government agency debt	34.2	0.6	(0.4)	34.4
- Asset backed securities	19.4	0.3	-	19.7
- U.S. government agency mortgage backed securities	331.2	8.4	(2.1)	337.5
- Non-agency mortgage backed securities	16.4	0.1	-	16.5
- Non-agency commercial mortgage backed securities	26.3	0.6	(0.2)	26.7
- Corporate bonds	670.2	16.8	(3.1)	683.9
- Corporate bonds - FDIC guaranteed	93.7	1.8	-	95.5
Total fixed income securities - available for sale	**1,689.2**	**38.1**	**(8.2)**	**1,719.1**
Other investments	-	0.6	(0.8)	(0.2)
Total investments	**1,689.2**	**38.7**	**(9.0)**	**1,718.9**

Accumulated other comprehensive income is in relation to the fixed income and equity securities classified as available for sale and is as follows:

	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
Gross unrealised gain on available for sale securities	40.3	47.3	38.1
Gross unrealised loss on available for sale securities	(3.9)	(3.7)	(8.2)
Net foreign exchange (gains) losses on available for sale fixed income securities	(3.1)	0.6	(1.0)
Tax provision	(1.1)	(1.0)	(0.7)
Accumulated other comprehensive income	**32.2**	**43.2**	**28.2**

Refer to note 15 for details of the investment balances in trusts in favour of ceding companies and on deposit as collateral.

10. Reinsurance assets and liabilities

	$m Unearned premiums ceded	$m Amounts payable to reinsurers	$m Other receivables	$m Total
As at 31 December 2009	**5.6**	**(4.2)**	**4.3**	**5.7**
Net deferral for:				
Prior years	(4.6)	-	-	(4.6)
Current year	19.2	-	-	19.2
Other	-	(8.5)	(2.3)	(10.8)
As at 30 June 2010	**20.2**	**(12.7)**	**2.0**	**9.5**
Net deferral for:				
Prior years	(1.0)	-	-	(1.0)
Current year	(16.3)	-	-	(16.3)
Other	-	8.3	3.6	11.9
As at 31 December 2010	**2.9**	**(4.4)**	**5.6**	**4.1**
Net deferral for:				
Prior years	(2.9)	-	-	(2.9)
Current year	29.2	-	-	29.2
Other	-	(18.4)	(5.5)	(23.9)
As at 30 June 2011	**29.2**	**(22.8)**	**0.1**	**6.5**

11. Losses and loss adjustment expenses

	$m Losses and loss adjustment expenses	$m Reinsurance recoveries	$m Net losses and loss adjustment expenses
As at 31 December 2009	**488.9**	**(35.8)**	**453.1**
Net incurred losses for:			
Prior years	(58.1)	2.0	(56.1)
Current year	250.7	(33.7)	217.0
Exchange adjustments	(9.0)	-	(9.0)
Incurred losses and loss adjustment expenses	**183.6**	**(31.7)**	**151.9**
Net paid losses for:			
Prior years	42.5	(2.6)	39.9
Current year	46.3	(17.1)	29.2
Paid losses and loss adjustment expenses	**88.8**	**(19.7)**	**69.1**
As at 30 June 2010	**583.7**	**(47.8)**	**535.9**
Net incurred losses for:			
Prior years	(46.8)	2.8	(44.0)
Current year	48.9	(0.1)	48.8
Exchange adjustments	7.2	-	7.2
Incurred losses and loss adjustment expenses	**9.3**	**2.7**	**12.0**
Net paid losses for:			
Prior years	80.5	(9.2)	71.3
Current year	5.0	-	5.0
Paid losses and loss adjustment expenses	**85.5**	**(9.2)**	**76.3**
As at 31 December 2010	**507.5**	**(35.9)**	**471.6**
Net incurred losses for:			
Prior years	(97.9)	1.0	(96.9)
Current year	220.6	(13.9)	206.7
Exchange adjustments	8.7	-	8.7
Incurred losses and loss adjustment expenses	**131.4**	**(12.9)**	**118.5**
Net paid losses for:			
Prior years	59.8	(2.7)	57.1
Current year	2.4	-	2.4
Paid losses and loss adjustment expenses	**62.2**	**(2.7)**	**59.5**
As at 30 June 2011	**576.7**	**(46.1)**	**530.6**

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 the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20% increase in estimated losses would lead to a $115.3 million (30 June 2010 - $116.7 million; 31 December 2010 - $101.5 million) increase in loss reserves. There was no change to the Group's reserving methodology during the reporting period.

The split of gross 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 2011		30 Jun 2010		31 Dec 2010	
	$m	%	$m	%	$m	%
Outstanding losses	261.7	45.4	234.1	40.1	251.8	49.6
Additional case reserves	154.1	26.7	156.9	26.9	61.1	12.0
Losses incurred but not reported	160.9	27.9	192.7	33.0	194.6	38.4
Total	**576.7**	**100.0**	**583.7**	**100.0**	**507.5**	**100.0**

The Group's reserve for unpaid losses and loss adjustment expenses for all periods had an estimated 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 development on net losses and loss adjustment expenses from prior years, excluding the impact of foreign exchange revaluations, was as follows:

	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
2006 accident year	1.8	0.9	0.3
2007 accident year	9.8	1.3	8.3
2008 accident year	15.4	26.3	36.0
2009 accident year	26.2	27.6	55.5
2010 accident year	43.7	-	-
Total favourable development	**96.9**	**56.1**	**100.1**

In early 2011 an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with the industry factors previously used. On completion net reserves of $36.9 million were released. The remaining favourable prior year development in 2011 arose primarily from IBNR releases due to fewer than expected reported losses. The six months to 30 June 2010 also had a low number of reported losses, in addition to experiencing favourable development on all prior accident year reserves.

In the six months to 30 June 2011 the Group was impacted by significant losses in relation to the Tohoku earthquake and following tsunami. Management's current best estimate of the ultimate net loss in relation to this event is $72.0 million. The 90th percentile of the loss distribution for this estimate is $86.2 million with the 95th percentile being $91.0 million. Significant uncertainty exists on the eventual ultimate loss in relation to earthquakes.

In the six months to 30 June 2010 the Group was impacted by significant losses in relation to the Chile Maule earthquake and subsequent aftershocks. Management's current best estimate of the ultimate net loss in relation to this event is $74.7 million. The 90th percentile of the loss distribution for this estimate is $86.6 million with the 95th percentile being $90.6 million.

In September 2008, Hurricane Ike passed through the Gulf of Mexico oil fields, making landfall in the U.S. Hurricane Ike was a very destructive storm, causing damage to and destruction of a significant number of oil platforms. Management's current best estimate of the ultimate loss in relation to this event is $181.1 million. The 90th percentile of the loss distribution for this estimate is $193.5 million with the 95th percentile being $197.8 million.

The estimated ultimate net losses, after reinstatement premiums, on the Group of these significant losses are as follows:

	$m Japan	$m Chile	$m Ike
Net ultimate losses as at 31 December 2009	**-**	**-**	**178.8**
Change in insurance losses and loss adjustment expenses	-	112.0	(3.1)
Change in insurance losses and loss adjustment expenses recoverable	-	-	0.5
Change in reinstatement premium	-	(14.5)	0.5
Net ultimate losses as at 30 June 2010	**-**	**97.5**	**176.7**
Change in insurance losses and loss adjustment expenses	-	(15.2)	4.7
Change in insurance losses and loss adjustment expenses recoverable	-	-	0.9
Change in reinstatement premium	-	2.4	(2.5)
Net ultimate losses as at 31 December 2010	**-**	**84.7**	**179.8**
Change in insurance losses and loss adjustment expenses	72.9	(10.0)	1.8
Change in insurance losses and loss adjustment expenses recoverable	-	-	(0.1)
Change in reinstatement premium	(0.9)	-	(0.4)
Net ultimate losses as at 30 June 2011	**72.0**	**74.7**	**181.1**

12. Deferred tax asset

	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
Deferred tax assets	9.4	4.8	7.8
Deferred tax liabilities	(1.7)	(1.1)	(1.4)
Net deferred tax asset	**7.7**	**3.7**	**6.4**

During 2010, the UK government enacted a change in the corporation tax rate from 28.0% to 27.0% that became effective from 1 April 2011. A deferred tax expense of $0.1 million was recognised in the period ending 31 December 2010 with respect to this change. At 31 December 2010, deferred tax on temporary differences that were expected to unwind in 2011 had a tax rate of 27.3% applied to them and a rate of 27.0% was applied to those that were expected to unwind in subsequent years.

During 2011, the UK government enacted a change in the corporation tax rate to 26.0% rather than the 27.0% previously announced with effect from 1 April 2011. A deferred tax expense of $0.1 million was recognised in the period ending 30 June 2011 with respect to this change. At 30 June 2011, deferred tax temporary differences that were expected to unwind in 2011 had a tax rate of 26.3% applied to them and a rate of 26.0% was applied to those that were expected to unwind in subsequent years.

A deferred tax credit of $1.2 million (30 June 2010 - $nil; 31 December 2010 - $1.6m) was recognised in other reserves which relates to deferred tax credits for unexercised equity based compensation awards where the estimated market value is in excess of the cumulative expense at the reporting date.

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that the Lancashire UK group of companies will be profitable in 2011, thus the entire deferred tax asset is recognised. All deferred tax assets and liabilities are classified as non-current.

13. Investment in associate

During 2011 the Group made investments totaling $7.5 million in AHL, a company incorporated in Bermuda. This represents a 20% interest. AHL's operating subsidiary, ARL, is authorised as a Special Purpose Insurer by the BMA. Further investment may be made by the Group, up to a maximum of $50.0 million, as and when underwriting opportunities arise and capital calls are made.

ARL was established to assume worldwide property retrocession risks from the Group. AHL is an unquoted investment and its shares do not trade on an active market. AHL is carried at $7.5 million, representing management's best estimate of fair value at 30 June 2011, based on available management information. The Group's share of the comprehensive income of AHL for the period 1 June 2011 to 30 June 2011 was negligible.

Investments in associates are generally deemed non-current. Key financial information for AHL for the period from the date of incorporation, 1 June 2011, to 30 June 2011 is as follows:

	$m
Assets	43.6
Liabilities	7.1
Shareholders' equity	36.5
Revenues	0.5
Comprehensive loss	(1.1)

14. Insurance liabilities

	$m	$m	$m
	Unearned premiums	**Other payables**	**Total**
As at 31 December 2009	**317.6**	**15.8**	**333.4**
Net deferral for:			
Prior years	(186.1)	-	(186.1)
Current year	306.5	-	306.5
Other	-	3.8	3.8
As at 30 June 2010	**438.0**	**19.6**	**457.6**
Net deferral for:			
Prior years	(73.0)	-	(73.0)
Current year	(14.4)	-	(14.4)
Other	-	1.0	1.0
As at 31 December 2010	**350.6**	**20.6**	**371.2**
Net deferral for:			
Prior years	(199.5)	-	(199.5)
Current year	267.4	-	267.4
Other	-	(0.9)	(0.9)
As at 30 June 2011	**418.5**	**19.7**	**438.2**

15. Letters of credit

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide letters of credit to policyholders as collateral. LHL and LICL have the following facilities in place as of 30 June 2011:

(i) A $200.0 million syndicated collateralised five year credit facility with $75.0 million loan sub-limit that has been in place since 16 July 2007. There was no outstanding debt under this facility at any reporting date.

(ii) A $200.0 million bi-lateral collateralised one year credit facility with Lloyds TSB Bank PLC which will expire on 16 August 2011. This will be replaced with another bi-lateral collateralised credit facility in the same amount with Lloyds TSB Bank PLC, expiring on 16 July 2012.

The facilities are available for the issue of LOCs to ceding companies. The facilities are also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The total of committed LOC facilities available to LHL and LICL is $400.0 million.

The terms of both facilities also include standard default and cross default provisions which require certain covenants to be adhered to. These include the following:

(i) An S&P or equivalent financial strength rating of at least B++; and

(ii) A maximum debt to capital ratio of 30%, where the current long-term debt issuance is excluded from this calculation.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The following LOCs have been issued:

	30 Jun 2011 $m	30 Jun 2010 $m	31 Dec 2010 $m
Issued to third parties	6.4	17.7	18.9

LOC's are required to be fully collateralised.

Trusts
The Group has several trust agreements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

The following cash and cash equivalents and investment balances were held in trust and other collateral accounts in favour of third parties:

As at 30 June 2011	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	35.0	144.4
In favour of letters of credit	9.0	26.4
In favour of derivative contracts	0.3	0.3
Total	**44.3**	**171.1**

As at 30 June 2010	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	24.0	207.7
In favour of letters of credit	10.3	29.3
In favour of interest rate swap	0.2	-
In favour of derivative contracts	0.2	-
Total	**34.7**	**237.0**

As at 31 December 2010	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	7.7	223.8
In favour of letters of credit	12.3	22.8
In favour of derivative contracts	0.5	0.1
Total	**20.5**	**246.7**

16. Share capital

Allocated, called up and fully paid	Number	$m
As at 31 December 2009	**182,503,063**	**91.2**
Shares repurchased and cancelled	(8,950,816)	(4.5)
As at 30 June 2010	**173,552,247**	**86.7**
Shares repurchased and cancelled	(4,949,820)	(2.4)
As at 31 December 2010 and 30 June 2011	**168,602,427**	**84.3**

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2009	**11,839,842**	**74.9**	**192,828**	**1.5**	**12,032,670**	**76.4**
Shares repurchased and held	5,110,603	36.5	1,819,926	13.0	6,930,529	49.5
Shares distributed	-	-	(1,253,221)	(8.8)	(1,253,221)	(8.8)
As at 30 June 2010	**16,950,445**	**111.4**	**759,533**	**5.7**	**17,709,978**	**117.1**
Cancellation of treasury shares	(502,000)	(3.9)	-	-	(502,000)	(3.9)
Shares distributed	-	-	(1,023,508)	(7.8)	(1,023,508)	(7.8)
Shares donated to trust	(1,000,000)	(7.3)	1,000,000	8.8	-	1.5
As at 31 December 2010	**15,448,445**	**100.2**	**736,025**	**6.7**	**16,184,470**	**106.9**
Shares distributed	(415,463)	(2.6)	(2,267,991)	(21.0)	(2,683,454)	(23.6)
Shares donated to trust	(2,184,609)	(13.7)	2,184,609	20.9	-	7.2
As at 30 June 2011	**12,848,373**	**83.9**	**652,643**	**6.6**	**13,501,016**	**90.5**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2011 was 155,754,054 (30 June 2010 - 156,601,802; 31 December 2010 - 153,153,982).

Share repurchases

At the Annual General Meeting held on 5 May 2011 the Group's shareholders approved a renewal of the Repurchase Program (the "Repurchase Program") authorising the repurchase of a maximum of 16,860,242 shares, with such authority to expire on the conclusion of the 2012 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Program was passed.

The Group's current Repurchase Program has 16,860,242 shares remaining to be purchased at 30 June 2011 (approximately $176.2 million at the 30 June 2011 share price).

As at 30 June 2010 and 31 December 2010 $92.3 million and $67.1 million, respectively, of approved repurchase remained in place under the authorisations that were current at those dates.

To date, shares have been repurchased by the Group under share repurchase authorisations as follows:

	Number of shares cancelled	Number of shares transferred to treasury shares	Weighted average price per share	$m
As at 31 December 2009	**13,640,916**	**11,839,842**	**£3.46**	**175.1**
Repurchases	8,950,816	5,110,603	£4.76	100.3
As at 30 June 2010	**22,591,732**	**16,950,445**	**£3.92**	**275.4**
Repurchases	4,447,820	-	£5.30	36.1
Cancellation of treasury shares	502,000	(502,000)	-	-
Stamp duty refund	-	-	-	(0.2)
Shares donated to trust	-	(1,000,000)	£4.84	(7.3)
As at 31 December 2010	**27,541,552**	**15,448,445**	**£4.05**	**304.0**
Shares distributed	-	(415,463)	£3.18	(2.6)
Shares donated to trust	-	(2,184,609)	£3.21	(13.7)
As at 30 June 2011	**27,541,552**	**12,848,373**	**£4.10**	**287.7**

At the balance sheet date $nil of share repurchases remained to be settled (30 June 2010 - $1.5 million; 31 December 2010 - $nil).

The trustees of the EBT acquired nil shares (30 June 2010 and 31 December 2010 - 1,819,926) in accordance with the terms of that trust and distributed 2,267,991 shares (30 June 2010 - 1,253,221; 31 December 2010 - 2,276,729). There were no unsettled balances in relation to EBT purchases at any of the balance sheet dates.

Dividends

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Special	$1.25	20 Nov 2009	6 Jan 2010	263.0
Final	$0.10	19 Mar 2010	14 Apr 2010	20.8
Interim	$0.05	3 Sep 2010	13 Oct 2010	9.4
Special	$1.40	10 Dec 2010	19 Jan 2011	264.0
Final	$0.10	18 Mar 2011	20 Apr 2011	18.9
Interim	$0.05	26 Aug 2011	28 Sep 2011	9.6

17. Earnings per share

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

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Profit for the period attributable to equity shareholders	97.5	93.0	330.8

	Number of shares	Number of shares	Number of shares
Basic weighted average number of shares	153,135,409	165,217,429	158,806,410
Dilutive effect of RSS	4,036,685	2,416,870	3,990,315
Dilutive effect of LTIP	637,225	556,092	500,310
Dilutive effect of warrants	17,651,273	11,923,712	14,214,198
Diluted weighted average number of shares	**175,460,592**	**180,114,103**	**177,511,233**

Earnings per share	**Six months 2011**	**Six months 2010**	**Twelve months 2010**
Basic	$0.64	$0.56	$2.08
Diluted	$0.56	$0.52	$1.86

18. Related party disclosures

The consolidated financial statements include LHL and the entities listed below:

Name	**Domicile**
Subsidiaries	
LICL	Bermuda
LIHL	United Kingdom
LUK	United Kingdom
LIMSL	United Kingdom
LISL	United Kingdom
LMEL	United Arab Emirates
Associate	
AHL	Bermuda
Other controlled entities	
LHFT	United States
EBT	Jersey

The Group did not make any cash donations to the EBT for funding during any of the reporting periods. The Group has a Loan Facility Agreement (the “Facility”) with RBC Cees Trustee

Limited, the Trustees of the EBT. The Group has made advances of $24.0 million (30 June 2010 - $20.0 million; 31 December 2010 - $20.0 million) to the EBT under the terms of the Facility.

During the period ended 30 June 2011 the Group donated 2,184,609 (30 June 2010 - nil; 31 December 2010 - 1,000,000) treasury shares to the EBT at the prevailing market rate. The total value of the treasury share donation was $20.9 million (30 June 2010 - $nil; 31 December 2010 - $8.8 million).

LICL holds $310.3 million (30 June 2010 - $265.9 million; 31 December 2010 - $306.4 million) of cash and cash equivalents and fixed income securities in trust for the benefit of LUK relating to intra-group reinsurance agreements.

Key management compensation
Remuneration for key management (the Group's executive directors and non-executive directors) was as follows:

	Six months 2011 $m	Six months 2010 $m	Twelve months 2010 $m
Short-term compensation	3.8	2.6	5.1
Equity based compensation	3.5	2.4	5.1
Directors' fees and expenses	1.5	0.9	1.9
Total	**8.8**	**5.9**	**12.1**

The Directors' fees and expenses includes $0.7 million (30 June 2010 - $0.4 million; 31 December 2010 - $0.7 million) paid to significant shareholders.

Transactions with a founding shareholder
Under the share repurchase authorisations discussed in note 16, the Group repurchased common shares for cancellation from a significant founding shareholder with representation on the Group's Board of Directors. The details are as follows:

Date	Number of shares	Price per share	$m
1 April 2010	4,120,879	$7.28	30.0
10 June 2010	1,000,000	$7.03	7.0
1 July 2010	500,000	$7.42	3.7
Total	**5,620,879**	**$7.24**	**40.7**

The sellers were Crestview Partners, L.P., Crestview Offshore Holdings (Cayman), L.P., Crestview Holdings (TE), L.P., Crestview Partners ERISA, L.P. and Crestview Partners (PF), L.P (collectively, "Crestview"). All of the shares were repurchased in off-market transactions at a discount to the then prevailing market price. As of 2 July 2010 Crestview no longer owned any common shares of the Group but continues to hold 1.2 million Founders' warrants. The founding shareholder resigned from the LHL Board of Directors as of 7 July 2010.

Transactions with the Lancashire Foundation

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

Date	$m
25 February 2010	1.1
5 November 2010	1.3

Transactions with associate

During the period to 30 June 2011 the Group ceded $6.8 million of premium to ARL and received $0.7 million of commission income. As at 30 June 2011, the following amounts were included in the consolidated balance sheet:

	Six months 2011 $m
Unearned premiums on premiums ceded	6.2
Amounts payable to reinsurers	(6.1)
Deferred acquisition costs ceded	(0.7)

Contingent profit commission will be payable to the Group based on the ultimate performance of ARL over the period 1 June 2011 to 30 June 2012.

19. Non-cash transactions

TBA's classified as derivatives were net settled during the period with purchases and sales of $4.8 million (30 June 2010 - $125.0 million; 31 December 2010 - $246.2 million) and $4.8 million (30 June 2010 - $125.3 million; 31 December 2010 - $246.6 million) respectively.

There was no unsettled element of share repurchases as at 30 June 2011 or 31 December 2010. The 30 June 2010 unsettled element of the share repurchases of $1.5 million discussed in note 16 was not reflected in that period's cash flows. It was recorded in the period when it actually settled. The 2010 special dividend declared of $264.0 million (2009 - $263.0 million) is not reflected in the cash flows of that year. The settlement date was 19 January 2011 (2009 - 6 January 2010) and the cash flow on this transaction has been recorded in the year it was actually settled.

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 2010	$m	£m
	LICL	**LUK**
Statutory capital and surplus	1,324.7	131.7
Minimum required statutory capital and surplus	289.1	25.4

Interim unaudited statutory capital and surplus was as follows:

As at 30 June 2011	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,197.1	134.2
Minimum required statutory capital and surplus	147.4	25.4

As at 30 June 2010	**$m**	**£m**
	LICL	**LUK**
Statutory capital and surplus	1,167.3	131.1
Minimum required statutory capital and surplus	189.8	31.7

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

21. Contingencies

Litigation

LICL has been in litigation in connection with the assignment of a leasehold interest. The judgement at first instance was the subject to an appeal, which was heard during June 2011. The appeal court judgment is expected in November 2011. Efforts are continuing to sub-let or assign the remaining leasehold interest.

22. Subsequent event

Dividend

On 26 July 2011 the Board of Directors declared the payment of an interim ordinary dividend of 5.0 cents per common share (approximately 3.0 pence per common share) to shareholders of record on 26 August 2011, with a settlement date of 28 September 2011. The total dividend payable will be approximately $9.6 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Letters of credit

On 26 July 2011 the Board of Directors authorised LICL to enter into a bi-lateral uncommitted LOC facility with Citibank Europe PLC for $400.0 million. This facility is in addition to the two committed LOC facilities currently in place in the amount of $400.0 million.

Statement of Director's 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). The Directors also confirm that, in view of the financial statements and the information contained within the interim management report, the business is a going concern.

ERNST & YOUNG

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INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows and related notes 1 to 22. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed within the accounting policies, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, 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 (UK and Ireland) and consequently 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.

ERNST & YOUNG

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

Ernst & Young LLP

London

Date 26th July 2011

Additional case reserves (ACR)
Additional reserves deemed necessary by management

Administrative expense ratio
Ratio, in per cent, of other operating expenses to net earned premiums

Aggregate
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

AGM
Annual General Meeting

AHL
Accordion Holdings Limited

ARL
Accordion Reinsurance Limited

Best Lancashire Assessment of Solvency over Time (BLAST)
The Group's economic capital model

BMA
Bermuda Monetary Authority

BSX
Bermuda Stock Exchange

Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events

Ceded
To transfer insurance risk from a direct insurer to a reinsurer and/or from a reinsurer to a retrocessionaire

Combined ratio
Ratio, in per cent, of the sum of net insurance losses, net acquisition expenses and other operating expenses to net earned premiums

Deferred acquisition costs
Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

DFSA
Dubai Financial Services Authority

Diluted EPS - Calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all potentially dilutive common shares into common shares under the treasury stock method

Duration
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 the convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation.

Earnings per share (EPS)
Basic EPS - Calculated by dividing net profit for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares and shares held by the EBT

EBT
Lancashire Holdings Employee Benefit Trust

EMD
Emerging Market Debt

ERM
Enterprise Risk Management

Excess of loss
Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FDIC Guaranteed Corporate Bonds
Corporate bonds protected by the Federal Deposit Insurance Corporation, an agency of the U.S. government

FSA
Financial Services Authority, United Kingdom

Fully converted book value per share (FCBVS)
Calculated by dividing the value of the total shareholders' equity plus the proceeds that would be received from the exercise of all dilutive outstanding options, dilutive warrants, and diluted RSS awards by the sum of all shares, including dilutive options, dilutive warrants, and dilutive RSS awards, assuming all are exercised

Gross premiums written
Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

the Group
LHL and its subsidiaries

GRSC
Group Reinsurance Security Committee

ICA
Individual capital assessment

ICG
Individual capital guidance

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standard(s)

Incurred but not reported (IBNR)
These are anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses.

International Accounting Standard(s) (IAS)
Standards, created by the IASB, for the preparation and presentation of financial statements

International Accounting Standards Board (IASB)
An international panel of accounting experts responsible for developing IAS and IFRS

IRR
Internal rate of return

Lancashire Foundation
The Lancashire Foundation is a Bermuda registered charitable trust

LHFT
Lancashire Holdings Financing Trust I

LHL
Lancashire Holdings Limited

LICL
Lancashire Insurance Company Limited

LIHL
Lancashire Insurance Holdings (UK) Limited

LIMSL
Lancashire Insurance Marketing Services Limited

LISL
Lancashire Insurance Services Limited

LMEL
Lancashire Insurance Marketing Services (Middle East) Limited

LOC
Letter of credit

Losses
Demand by an insured for indemnity under an insurance contract

LSE
London Stock Exchange

LTIP
Long-term incentive plan

LUK
Lancashire Insurance Company (UK) Limited

Net acquisition cost ratio
Ratio, in per cent, of net acquisition expenses to net earned premiums

Net loss ratio
Ratio, in per cent, of net insurance losses to net earned premiums

Net operating profit
Profit before tax excluding realised gains and losses, foreign exchange gains and losses and equity based compensation relating to warrants issued at IPO

Net premiums written
Net premiums written is equal to gross premiums written less outwards reinsurance premiums written

OTC
Over the counter

Pro-rata/proportional
Reinsurance or insurance where the reinsured or insured shares a proportional part of the original premiums and losses of the reinsured or insured

Retention limits
Limits imposed upon underwriters for retention of exposures by the Group after the application of reinsurance programmes

Retrocessional reinsurance
The reinsurance of the reinsurance account

Return on Equity (RoE)
The IRR of the change in FCBVS in the period plus accrued dividends

RPI
Renewal Price Index

RSS
Restricted share scheme

Sidecar
A specialty reinsurance company designed to provide additional capital to another (re)insurance company. Investors invest in a sidecar to reinsure specific risks for a specific (re)insurance company.

Special Event
A Special Event is a change in the tax and/or investment status of the issuing trust

Standards & Poors (S&P)
Standards & Poors is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

TBAs
Mortgage backed “to be announced” securities

Total Shareholder Return (TSR)
The IRR of the increase in share price, in the period, measured in U.S. dollars, adjusted for dividends

Treaty reinsurance
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

Unearned premiums
The portion of premium income that is attributable to periods after the balance sheet date is deferred and amortised to future accounting periods

U.S. GAAP
Accounting principles generally accepted in the United States

Value at Risk (VaR)
A measure of the risk of loss of a specific portfolio of financial assets

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. statements which include the words “believes”, “anticipates”, “plans”, “projects”, “intends”, “expects”, “estimates”, “predicts”, “may”, “will”, “seeks”, “should” or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. all forward-looking statements address matters that involve risks and uncertainties. accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled ''Risk disclosures'', which should be read in conjunction with the other cautionary statements that are included in this document. any forward-looking statements in this document reflect the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Given these uncertainties investors are cautioned not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of this document. subject to any obligations under the listing Rules, the Disclosure and Transparency Rules or as otherwise required by law, the company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. all subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.