

Underwriting comes **first**

Effectively **balance** risk and return

Operate **nimbly** through the cycle

Financial Supplement  
**Q2 2011**

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THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS (INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE)) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

## **Lancashire Holdings Limited**

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**Lancashire Holdings Limited**  
**basis of presentation and non-GAAP financial measures**



LANCASHIRE HOLDINGS LIMITED'S ("LANCASHIRE" OR "THE GROUP") AUDITED CONSOLIDATED FINANCIAL STATEMENTS ARE PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") ENDORSED BY THE EUROPEAN UNION. WHERE IFRS IS SILENT, AS IT IS IN RESPECT OF THE MEASUREMENT OF INSURANCE PRODUCTS, THE IFRS FRAMEWORK ALLOWS REFERENCE TO ANOTHER COMPREHENSIVE BODY OF ACCOUNTING PRINCIPLES. IN SUCH INSTANCES, MANAGEMENT DETERMINES APPROPRIATE MEASUREMENT BASES, TO PROVIDE THE MOST USEFUL INFORMATION TO USERS OF THE CONSOLIDATED FINANCIAL STATEMENTS, USING THEIR JUDGMENT AND CONSIDERING THE ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES ("US GAAP").

THIS FINANCIAL SUPPLEMENT HAS NOT BEEN AUDITED AND MAY CONTAIN DIFFERENCES TO NUMBERS AND DISCLOSURES PROVIDED IN OUR AUDITED AND / OR INTERIM FINANCIAL STATEMENTS. THESE DIFFERENCES ARE DUE TO MANAGEMENT'S PREFERRED PRESENTATION OR TO AID USERS' UNDERSTANDING OF THE GROUP.

THE FOLLOWING INFORMATION INCLUDED IN THIS DOCUMENT HAS NOT BEEN PREPARED IN ACCORDANCE WITH THE ACCOUNTING PRINCIPLES USED BY LANCASHIRE FOR ITS AUDITED AND / OR INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INCLUDES NON IFRS/US GAAP MEASURES:

NET OPERATING INCOME (LOSS) - NET OPERATING INCOME (LOSS) EXCLUDES: REALISED GAINS AND LOSSES; WARRANTS ISSUED AT IPO; FOREIGN EXCHANGE AND TAX

NET LOSS RATIO - THE NET LOSS RATIO IS THE NET INSURANCE LOSSES AND LOSS ADJUSTMENT EXPENSES DIVIDED BY NET PREMIUMS EARNED

NET ACQUISITION COST RATIO - THE NET ACQUISITION COST RATIO IS THE NET ACQUISITION EXPENSES DIVIDED BY NET PREMIUMS EARNED

ADMINISTRATIVE EXPENSE RATIO - THE ADMINISTRATIVE EXPENSE RATIO IS THE GENERAL AND ADMINISTRATIVE EXPENSES ("OTHER OPERATING EXPENSES"), BUT EXCLUDING WARRANTS, OPTIONS AND RESTRICTED STOCK EXPENSES, DIVIDED BY NET PREMIUMS EARNED

COMBINED RATIO - THE COMBINED RATIO IS THE SUM OF THE LOSS RATIO, THE ACQUISITION COST RATIO AND THE ADMINISTRATIVE EXPENSE RATIO

FULLY CONVERTED BOOK VALUE PER SHARE ("FCBVS") - THE CALCULATION IS BASED ON THE FOLLOWING: THE VALUE OF TOTAL SHAREHOLDERS' EQUITY PLUS THE PROCEEDS THAT WOULD BE RECEIVED FROM THE EXERCISE OF ALL DILUTIVE OUTSTANDING OPTIONS, DILUTIVE WARRANTS AND DILUTIVE RESTRICTED STOCK UNITS AS CALCULATED UNDER THE TREASURY METHOD; DIVIDED BY: THE SUM OF ALL SHARES, DILUTIVE OPTIONS, DILUTIVE WARRANTS AND DILUTIVE RESTRICTED STOCK UNITS, ASSUMING ALL ARE EXERCISED.

CHANGE IN FULLY CONVERTED BOOK VALUE PER SHARE ADJUSTED FOR DIVIDENDS - THE CALCULATION IS THE INTERNAL RATE OF RETURN OF THE CHANGE IN FULLY CONVERTED BOOK VALUE PER SHARE IN THE PERIOD PLUS DIVIDENDS ACCRUED

COMPOUND ANNUAL CHANGE IN FULLY CONVERTED BOOK VALUE PER SHARE ADJUSTED FOR DIVIDENDS ABOVE 3 MONTH TREASURY - THE CALCULATION IS THE INTERNAL RATE OF RETURN ON THE MOVEMENT IN FULLY CONVERTED BOOK VALUE SINCE INCEPTION ON AN ANNUALISED BASIS PLUS DIVIDENDS ACCRUED LESS THE ANNUALISED 3 MONTH TREASURY RATE

FULLY DILUTED BOOK VALUE PER SHARE ("FDBVS") - THE CALCULATION IS BASED ON THE FOLLOWING: THE VALUE OF TOTAL SHAREHOLDERS' EQUITY DIVIDED BY: THE SUM OF ALL SHARES OUTSTANDING AFTER THE EXERCISE OF ALL DILUTIVE OPTIONS, DILUTIVE WARRANTS AND DILUTIVE RESTRICTED STOCK UNITS, AS CALCULATED UNDER THE TREASURY METHOD, ASSUMING ALL ARE EXERCISED.

DEBT TO TOTAL CAPITAL RATIO - THE CALCULATION IS BASED ON THE FOLLOWING AND IS AN INDICATION OF THE LEVERAGE OF THE COMPANY: LONG-TERM DEBT DIVIDED BY LONG-TERM DEBT PLUS TOTAL SHAREHOLDERS' EQUITY

MANAGED CASH INCLUDES BOTH CASH MANAGED BY EXTERNAL INVESTMENT MANAGERS AND NON-OPERATING CASH MANAGED INTERNALLY

ALL AMOUNTS, EXCLUDING SHARE DATA OR WHERE OTHERWISE STATED, ARE IN MILLIONS OF UNITED STATES DOLLARS

MANAGEMENT BELIEVES THE FINANCIAL MEASURES INCLUDED IN THIS FINANCIAL SUPPLEMENT ARE IMPORTANT FOR UNDERSTANDING THE GROUP'S OVERALL RESULTS OF OPERATIONS. WE BELIEVE THAT THE MEASURES INCLUDED IN THIS DOCUMENT ARE IMPORTANT TO INVESTORS AND OTHER INTERESTED PARTIES AND THAT SUCH PERSONS BENEFIT FROM HAVING A CONSISTENT BASIS FOR COMPARISON WITH OTHER COMPANIES WITHIN THE INDUSTRY. HOWEVER, THESE MEASURES MAY NOT BE COMPARABLE TO SIMILARLY LABELED MEASURES USED BY COMPANIES INSIDE OR OUTSIDE THE INSURANCE INDUSTRY. IN ADDITION, THE INFORMATION HEREIN SHOULD NOT BE VIEWED AS A SUBSTITUTE FOR THE MEASURES DETERMINED IN ACCORDANCE WITH THE ACCOUNTING PRINCIPLES USED BY THE GROUP FOR ITS AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND IN ACCORDANCE WITH IFRS/US GAAP. WHERE INDICATED THROUGHOUT THIS DOCUMENT, REFERENCE SHOULD BE MADE TO COMPARABLE INFORMATION IN THE GROUP'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND INTERIM RESULTS ANNOUNCEMENT.

**Lancashire Holdings Limited**  
**consolidated financial highlights**

	q2 2011	q2 2010	% change q2-11 vs. q2-10	ytd 2011	ytd 2010	% change ytd-11 vs. ytd-10
<b>highlights</b>						
gross premiums written	\$ 207.9	\$ 232.1	(10%)	\$ 379.8	\$ 460.1	(17%)
net premiums written	191.4	218.7	(12%)	329.1	422.2	(22%)
net premiums earned	142.3	144.6	(2%)	287.5	316.4	(9%)
net insurance losses	12.5	27.0	(54%)	109.8	160.9	(32%)
net investment income	12.2	13.9	(12%)	23.8	27.6	(14%)
net realised gains (losses) and impairments	2.6	8.5	(69%)	5.0	12.8	(61%)
profit after tax	88.9	84.8	5%	97.5	93.0	5%
change in net unrealised gains / losses on investments	6.2	6.0	3%	4.0	12.8	(69%)
comprehensive income	95.1	90.8	5%	101.5	105.8	(4%)
net operating income <sup>(1)</sup>	\$ 86.3	\$ 77.8	11%	\$ 93.2	\$ 85.7	9%
total investments and cash	\$ 2,169.6	\$ 2,106.7	3%			
total shareholders' equity	\$ 1,380.4	\$ 1,360.9	1%			
<b>per share data</b>						
net operating income per share - diluted <sup>(2)</sup>	\$ 0.49	\$ 0.44		\$ 0.53	\$ 0.48	
profit after tax per share - diluted <sup>(2)</sup>	\$ 0.50	\$ 0.48		\$ 0.56	\$ 0.52	
fully converted book value per share	\$ 7.96	\$ 7.86		\$ 7.96	\$ 7.86	
change in FCBVS adj for dividends <sup>(3)</sup>	6.1%	6.5%		6.5%	7.5%	
fully diluted book value per share	\$ 7.86	\$ 7.76		\$ 7.86	\$ 7.76	
change in FDBVS adj for dividends <sup>(4)</sup>	6.4%	6.3%		6.7%	7.4%	
<b>financial ratios</b>						
net loss ratio	8.8%	18.7%		38.2%	50.9%	
net acquisition cost ratio	18.4%	19.2%		17.9%	17.2%	
administrative expense ratio	14.0%	13.6%		13.4%	9.3%	
combined ratio	<u>41.2%</u>	<u>51.5%</u>		<u>69.5%</u>	<u>77.4%</u>	
net return on total investments	1.1%	1.4%		1.8%	2.6%	

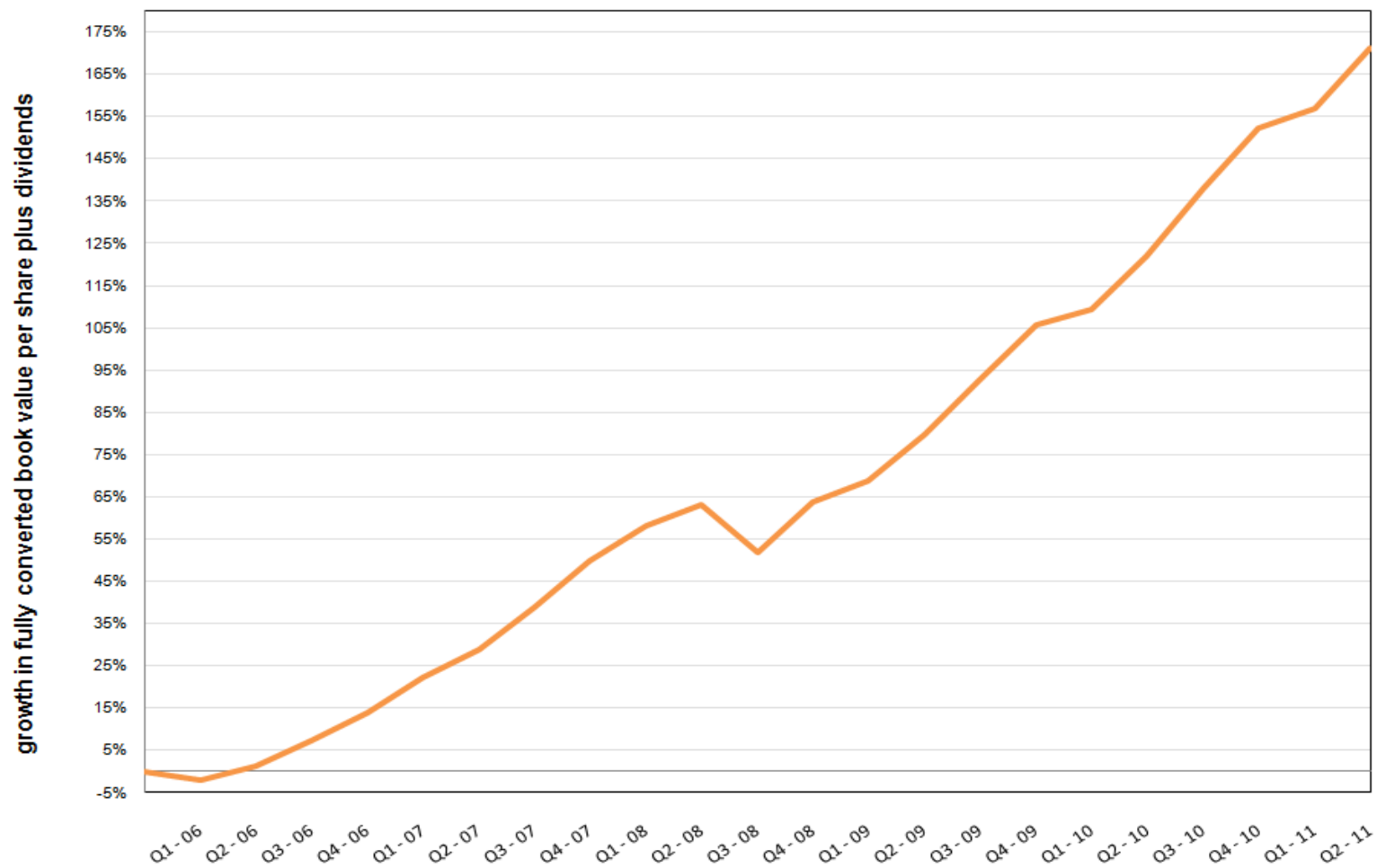
<sup>(1)</sup> excludes realised gains and losses, foreign exchange gains and losses, equity based compensation relating to warrants issued at IPO and tax

<sup>(2)</sup> earnings per share calculations use weighted average common shares outstanding - basic when in a net loss position

<sup>(3)</sup> change in fully converted book value per share ("FCBVS") adjusted for dividends is the internal rate of return of the change in fully converted book value per share in the period adjusted for dividends accrued

<sup>(4)</sup> change in fully diluted book value per share adjusted for dividends ("FDBVS") is the internal rate of return of the change in fully diluted book value per share in the period adjusted for dividends accrued

**Lancashire Holdings Limited**  
**growth in fully converted book value per share plus dividends since inception**



**Lancashire Holdings Limited**  
summary consolidated income statements

	q2 2011	q1 2011	q4 2010	q3 2010	q2 2010	ytd 2011	ytd 2010	full year 2010
gross premiums written	\$ 207.9	\$ 171.9	\$ 94.0	\$ 135.0	\$ 232.1	\$ 379.8	\$ 460.1	\$ 689.1
outwards reinsurance premiums	(16.5)	(34.2)	(0.3)	(1.0)	(13.4)	(50.7)	(37.9)	(39.2)
<b>net premiums written</b>	<b>191.4</b>	<b>137.7</b>	<b>93.7</b>	<b>134.0</b>	<b>218.7</b>	<b>329.1</b>	<b>422.2</b>	<b>649.9</b>
change in unearned premiums	(53.4)	(14.5)	64.5	22.9	(72.5)	(67.9)	(120.4)	(33.0)
change in unearned premiums on premiums ceded	4.3	22.0	(8.8)	(8.5)	(1.6)	26.3	14.6	(2.7)
<b>net premiums earned</b>	<b>142.3</b>	<b>145.2</b>	<b>149.4</b>	<b>148.4</b>	<b>144.6</b>	<b>287.5</b>	<b>316.4</b>	<b>614.2</b>
net investment income	12.2	11.6	12.7	13.1	13.9	23.8	27.6	53.4
net other investment income (losses)	0.1	(0.1)	-	0.1	0.1	-	-	0.1
net realised gains (losses) and impairments	2.6	2.4	13.8	6.6	8.5	5.0	12.8	33.2
net foreign exchange gains (losses)	1.8	(0.9)	(0.1)	3.6	(1.9)	0.9	(3.6)	(0.1)
<b>total net revenue</b>	<b>159.0</b>	<b>158.2</b>	<b>175.8</b>	<b>171.8</b>	<b>165.2</b>	<b>317.2</b>	<b>353.2</b>	<b>700.8</b>
insurance losses	17.6	105.1	(11.5)	13.6	59.1	122.7	192.6	194.7
insurance losses recoverable	(5.1)	(7.8)	2.4	0.3	(32.1)	(12.9)	(31.7)	(29.0)
net insurance acquisition expenses	26.2	25.4	23.7	28.3	27.7	51.6	54.3	106.3
equity based compensation	5.8	6.4	6.1	4.4	4.7	12.2	10.6	21.1
other operating expenses	19.9	18.7	16.5	15.9	19.6	38.6	29.4	61.8
<b>total expenses</b>	<b>64.4</b>	<b>147.8</b>	<b>37.2</b>	<b>62.5</b>	<b>79.0</b>	<b>212.2</b>	<b>255.2</b>	<b>354.9</b>
<b>profit before tax and finance costs</b>	<b>94.6</b>	<b>10.4</b>	<b>138.6</b>	<b>109.3</b>	<b>86.2</b>	<b>105.0</b>	<b>98.0</b>	<b>345.9</b>
financing costs	(3.6)	(2.0)	(1.6)	(1.7)	(1.7)	(5.6)	(3.4)	(6.7)
<b>profit before tax</b>	<b>91.0</b>	<b>8.4</b>	<b>137.0</b>	<b>107.6</b>	<b>84.5</b>	<b>99.4</b>	<b>94.6</b>	<b>339.2</b>
tax	(2.1)	0.2	(5.2)	(1.6)	0.3	(1.9)	(1.6)	(8.4)
<b>profit after tax</b>	<b>\$ 88.9</b>	<b>\$ 8.6</b>	<b>\$ 131.8</b>	<b>\$ 106.0</b>	<b>\$ 84.8</b>	<b>\$ 97.5</b>	<b>\$ 93.0</b>	<b>\$ 330.8</b>
change in net unrealised gains / losses on investments	6.2	(2.2)	(34.8)	19.8	6.0	4.0	12.8	(2.2)
<b>comprehensive income</b>	<b>\$ 95.1</b>	<b>\$ 6.4</b>	<b>\$ 97.0</b>	<b>\$ 125.8</b>	<b>\$ 90.8</b>	<b>\$ 101.5</b>	<b>\$ 105.8</b>	<b>\$ 328.6</b>
net loss ratio	8.8%	67.0%	(6.1%)	9.4%	18.7%	38.2%	50.9%	27.0%
net acquisition cost ratio	18.4%	17.5%	15.9%	19.1%	19.2%	17.9%	17.2%	17.3%
administrative expense ratio	14.0%	12.9%	11.0%	10.7%	13.6%	13.4%	9.3%	10.1%
combined ratio	41.2%	97.4%	20.8%	39.2%	51.5%	69.5%	77.4%	54.4%
net return on total investments	1.1%	0.6%	(0.4%)	2.0%	1.4%	1.8%	2.6%	4.2%
basic earnings per share	\$ 0.58	\$ 0.06	\$ 0.87	\$ 0.69	\$ 0.53	\$ 0.64	\$ 0.56	\$ 2.08
diluted earnings per share	\$ 0.50	\$ 0.05	\$ 0.76	\$ 0.61	\$ 0.48	\$ 0.56	\$ 0.52	\$ 1.86

**Lancashire Holdings Limited**  
**premiums by line of business**

	q2 2011	q1 2011	q4 2010	q3 2010	q2 2010	ytd 2011	ytd 2010	full year 2010
<b>gross premiums written</b>								
property cat excess of loss	\$ 16.3	\$ 33.0	\$ 2.2	\$ 24.1	\$ 17.4	\$ 49.3	\$ 71.8	\$ 98.1
terrorism	17.4	23.2	13.1	11.1	24.8	40.6	53.6	77.8
property retrocession	7.1	25.9	2.4	0.2	2.9	33.0	49.8	52.4
property direct and facultative	18.8	13.6	12.7	15.2	22.2	32.4	36.9	64.8
property political risk	0.8	5.4	6.3	9.9	4.7	6.2	12.9	29.1
other property	2.5	1.2	0.2	0.5	1.2	3.7	0.7	1.4
total property	62.9	102.3	36.9	61.0	73.2	165.2	225.7	323.6
worldwide offshore energy	60.2	22.6	22.8	27.6	43.8	82.8	72.7	123.1
gulf of mexico offshore energy	50.7	2.1	1.8	14.0	68.9	52.8	71.6	87.4
construction energy	4.1	1.5	2.4	4.9	1.0	5.6	4.9	12.2
energy excess of loss	4.0	1.3	-	-	5.4	5.3	5.4	5.4
onshore energy	3.6	0.9	1.0	2.7	2.2	4.5	3.2	6.9
other energy	0.8	0.3	-	2.1	0.8	1.1	1.2	3.3
total energy	123.4	28.7	28.0	51.3	122.1	152.1	159.0	238.3
marine hull and total loss	3.4	10.9	(0.5)	9.2	15.1	14.3	23.0	31.7
marine P&I clubs	0.7	9.1	0.8	0.1	0.4	9.8	11.0	11.9
marine builders risk	3.0	5.4	3.3	1.5	4.8	8.4	9.8	14.6
marine hull war	2.8	5.2	2.7	2.6	3.9	8.0	11.6	16.9
other marine	1.0	2.7	0.2	0.4	0.1	3.7	0.7	1.3
total marine	10.9	33.3	6.5	13.8	24.3	44.2	56.1	76.4
AV 52	9.3	6.7	19.5	7.4	10.3	16.0	15.7	42.6
other aviation	1.4	0.9	3.1	1.5	2.2	2.3	3.6	8.2
total aviation	10.7	7.6	22.6	8.9	12.5	18.3	19.3	50.8
<b>total gross premiums written</b>	<b>\$ 207.9</b>	<b>\$ 171.9</b>	<b>\$ 94.0</b>	<b>\$ 135.0</b>	<b>\$ 232.1</b>	<b>\$ 379.8</b>	<b>\$ 460.1</b>	<b>\$ 689.1</b>



**Lancashire Holdings Limited**  
**summary consolidated underwriting segment results**



**six months ending 30 june 2011**

	<b>property</b>	<b>energy</b>	<b>marine</b>	<b>aviation</b>	<b>consolidated</b>
gross premiums written	\$ 165.2	\$ 152.1	\$ 44.2	\$ 18.3	\$ 379.8
net premiums written	140.2	133.5	40.9	14.5	329.1
net premiums earned	136.8	91.2	35.7	23.8	287.5
net insurance losses	81.2	37.0	(2.9)	(5.5)	109.8
net insurance acquisition expenses	17.4	18.5	10.1	5.6	51.6
other operating expenses <sup>(1)</sup>					38.6
	\$ 38.2	\$ 35.7	\$ 28.5	\$ 23.7	\$ 87.5
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 <sup>(1)</sup>					13.4%
combined ratio	72.1%	60.9%	20.2%	0.4%	69.5%

**six months ending 30 june 2010**

	<b>property</b>	<b>energy</b>	<b>marine</b>	<b>aviation</b>	<b>consolidated</b>
gross premiums written	\$ 225.7	\$ 159.0	\$ 56.1	\$ 19.3	\$ 460.1
net premiums written	207.2	146.3	54.9	13.8	422.2
net premiums earned	172.5	83.6	33.6	26.7	316.4
net insurance losses	106.3	35.6	23.6	(4.6)	160.9
net insurance acquisition expenses	19.7	19.3	9.2	6.1	54.3
other operating expenses <sup>(1)</sup>					29.4
	\$ 46.5	\$ 28.7	\$ 0.8	\$ 25.2	\$ 71.8
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 <sup>(1)</sup>					9.3%
combined ratio	73.0%	65.7%	97.6%	5.6%	77.4%

<sup>(1)</sup> administrative expenses are not allocated by segment

**Lancashire Holdings Limited**  
**property segment - underwriting statement**

	<u>q2</u> <u>2011</u>	<u>q1</u> <u>2011</u>	<u>q4</u> <u>2010</u>	<u>q3</u> <u>2010</u>	<u>q2</u> <u>2010</u>	<u>full year</u> <u>2010</u>
<b>underwriting income (loss)</b>						
gross premiums written	\$ 62.9	\$ 102.3	\$ 36.9	\$ 61.0	\$ 73.2	\$ 323.6
outwards reinsurance premiums	(12.2)	(12.8)	-	(0.4)	(3.9)	(18.9)
<b>net premiums written</b>	<b>50.7</b>	<b>89.5</b>	<b>36.9</b>	<b>60.6</b>	<b>69.3</b>	<b>304.7</b>
change in unearned premiums	7.4	(26.5)	40.0	11.4	6.1	5.3
change in unearned premiums on premiums ceded	7.3	8.4	(4.8)	(4.9)	0.3	1.7
<b>net premiums earned</b>	<b>\$ 65.4</b>	<b>\$ 71.4</b>	<b>\$ 72.1</b>	<b>\$ 67.1</b>	<b>\$ 75.7</b>	<b>\$ 311.7</b>
<b>underwriting expenses</b>						
net insurance losses	(14.7)	95.9	0.7	1.7	(4.4)	108.7
net insurance acquisition expenses	8.7	8.7	9.5	9.1	9.7	38.3
<b>total underwriting expenses</b>	<b>(6.0)</b>	<b>104.6</b>	<b>10.2</b>	<b>10.8</b>	<b>5.3</b>	<b>147.0</b>
<b>net underwriting income (loss)</b>	<b>\$ 71.4</b>	<b>\$ (33.2)</b>	<b>\$ 61.9</b>	<b>\$ 56.3</b>	<b>\$ 70.4</b>	<b>\$ 164.7</b>
net loss ratio (% of net premiums earned)	(22.5%)	134.3%	1.0%	2.5%	(5.8%)	34.9%
net acquisition cost ratio (% of net premiums earned)	13.3%	12.2%	13.2%	13.6%	12.8%	12.3%
	(9.2%)	146.5%	14.2%	16.1%	7.0%	47.2%

**Lancashire Holdings Limited**  
**energy segment - underwriting statement**

	<b>q2</b> <b>2011</b>	<b>q1</b> <b>2011</b>	<b>q4</b> <b>2010</b>	<b>q3</b> <b>2010</b>	<b>q2</b> <b>2010</b>	<b>full year</b> <b>2010</b>
<b>underwriting income</b>						
gross premiums written	\$ 123.4	\$ 28.7	\$ 28.0	\$ 51.3	\$ 122.1	\$ 238.3
outwards reinsurance premiums	(6.3)	(12.3)	(0.5)	(0.7)	(7.4)	(13.9)
<b>net premiums written</b>	<b>117.1</b>	<b>16.4</b>	<b>27.5</b>	<b>50.6</b>	<b>114.7</b>	<b>224.4</b>
change in unearned premiums	(70.9)	21.3	24.3	1.1	(75.2)	(38.8)
change in unearned premiums on premiums ceded	-	7.3	(2.1)	(1.7)	(1.6)	(2.3)
<b>net premiums earned</b>	<b>\$ 46.2</b>	<b>\$ 45.0</b>	<b>\$ 49.7</b>	<b>\$ 50.0</b>	<b>\$ 37.9</b>	<b>\$ 183.3</b>
<b>underwriting expenses</b>						
net insurance losses	24.8	12.2	(8.7)	10.1	23.9	37.0
net insurance acquisition expenses	9.8	8.7	6.9	10.7	9.5	36.9
<b>total underwriting expenses</b>	<b>34.6</b>	<b>20.9</b>	<b>(1.8)</b>	<b>20.8</b>	<b>33.4</b>	<b>73.9</b>
<b>net underwriting income</b>	<b>\$ 11.6</b>	<b>\$ 24.1</b>	<b>\$ 51.5</b>	<b>\$ 29.2</b>	<b>\$ 4.5</b>	<b>\$ 109.4</b>
net loss ratio (% of net premiums earned)	53.7%	27.1%	(17.5%)	20.2%	63.1%	20.2%
net acquisition cost ratio (% of net premiums earned)	21.2%	19.3%	13.9%	21.4%	25.1%	20.1%
	74.9%	46.4%	(3.6%)	41.6%	88.2%	40.3%

**Lancashire Holdings Limited**  
**marine segment - underwriting statement**

	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>	<b>full year 2010</b>
<b>underwriting income</b>						
gross premiums written	\$ 10.9	\$ 33.3	\$ 6.5	\$ 13.8	\$ 24.3	\$ 76.4
outwards reinsurance premiums	3.1	(6.4)	0.2	0.1	0.5	(0.9)
<b>net premiums written</b>	<b>14.0</b>	<b>26.9</b>	<b>6.7</b>	<b>13.9</b>	<b>24.8</b>	<b>75.5</b>
change in unearned premiums	7.3	(14.0)	9.6	4.4	(6.2)	(6.9)
change in unearned premiums on premiums ceded	(3.2)	4.7	(0.7)	(0.7)	(1.1)	(1.8)
<b>net premiums earned</b>	<b>\$ 18.1</b>	<b>\$ 17.6</b>	<b>\$ 15.6</b>	<b>\$ 17.6</b>	<b>\$ 17.5</b>	<b>\$ 66.8</b>
<b>underwriting expenses</b>						
net insurance losses	2.6	(5.5)	(0.5)	2.7	11.8	25.8
net insurance acquisition expenses	4.6	5.5	4.6	5.4	4.5	19.2
<b>total underwriting expenses</b>	<b>7.2</b>	<b>-</b>	<b>4.1</b>	<b>8.1</b>	<b>16.3</b>	<b>45.0</b>
<b>net underwriting income</b>	<b>\$ 10.9</b>	<b>\$ 17.6</b>	<b>\$ 11.5</b>	<b>\$ 9.5</b>	<b>\$ 1.2</b>	<b>\$ 21.8</b>
net loss ratio (% of net premiums earned)	14.4%	(31.3%)	(3.2%)	15.3%	67.4%	38.6%
net acquisition cost ratio (% of net premiums earned)	25.4%	31.3%	29.5%	30.7%	25.7%	28.7%
	39.8%	-	26.3%	46.0%	93.1%	67.3%

**Lancashire Holdings Limited**  
**aviation segment - underwriting statement**

	<u>q2</u> <u>2011</u>	<u>q1</u> <u>2011</u>	<u>q4</u> <u>2010</u>	<u>q3</u> <u>2010</u>	<u>q2</u> <u>2010</u>	<u>full year</u> <u>2010</u>
<b>underwriting income</b>						
gross premiums written	\$ 10.7	\$ 7.6	\$ 22.6	\$ 8.9	\$ 12.5	\$ 50.8
outwards reinsurance premiums	(1.1)	(2.7)	-	-	(2.6)	(5.5)
<b>net premiums written</b>	<u>9.6</u>	<u>4.9</u>	<u>22.6</u>	<u>8.9</u>	<u>9.9</u>	<u>45.3</u>
change in unearned premiums	2.8	4.7	(9.4)	6.0	2.8	7.4
change in unearned premiums on premiums ceded	0.2	1.6	(1.2)	(1.2)	0.8	(0.3)
<b>net premiums earned</b>	<u>\$ 12.6</u>	<u>\$ 11.2</u>	<u>\$ 12.0</u>	<u>\$ 13.7</u>	<u>\$ 13.5</u>	<u>\$ 52.4</u>
<b>underwriting expenses</b>						
net insurance losses	(0.2)	(5.3)	(0.6)	(0.6)	(4.3)	(5.8)
net insurance acquisition expenses	3.1	2.5	2.7	3.1	4.0	11.9
<b>total underwriting expenses</b>	<u>2.9</u>	<u>(2.8)</u>	<u>2.1</u>	<u>2.5</u>	<u>(0.3)</u>	<u>6.1</u>
<b>net underwriting income</b>	<u>\$ 9.7</u>	<u>\$ 14.0</u>	<u>\$ 9.9</u>	<u>\$ 11.2</u>	<u>\$ 13.8</u>	<u>\$ 46.3</u>
net loss ratio (% of net premiums earned)	(1.6%)	(47.3%)	(5.0%)	(4.4%)	(31.9%)	(11.1%)
net acquisition cost ratio (% of net premiums earned)	24.6%	22.3%	22.5%	22.6%	29.6%	22.7%
	<u>23.0%</u>	<u>(25.0%)</u>	<u>17.5%</u>	<u>18.2%</u>	<u>(2.3%)</u>	<u>11.6%</u>

**Lancashire Holdings Limited**  
**summary consolidated cash flows**

<b>cash flows</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>	<b>ytd 2011</b>	<b>ytd 2010</b>	<b>full year 2010</b>
net cash flows from operating activities	\$ 120.2	\$ 67.4	\$ 22.9	\$ 117.6	\$ 21.5	\$ 187.6	\$ 128.3	\$ 268.8
net cash flows (used in) from investing activities	(143.9)	172.3	220.6	(69.0)	141.4	28.4	107.6	259.2
net cash flows used in financing activities	(23.7)	(265.3)	(10.5)	(39.0)	(118.1)	(289.0)	(398.6)	(448.1)
<b>net (decrease) increase in cash and cash equivalents</b>	<b>(47.4)</b>	<b>(25.6)</b>	<b>233.0</b>	<b>9.6</b>	<b>44.8</b>	<b>(73.0)</b>	<b>(162.7)</b>	<b>79.9</b>
cash and cash equivalents, opening	493.3	512.5	288.1	268.7	230.6	512.5	440.0	440.0
effect of exchange rate fluctuations	3.0	6.4	(8.6)	9.8	(6.7)	9.4	(8.6)	(7.4)
<b>cash and cash equivalents, closing</b>	<b>\$ 448.9</b>	<b>\$ 493.3</b>	<b>\$ 512.5</b>	<b>\$ 288.1</b>	<b>\$ 268.7</b>	<b>\$ 448.9</b>	<b>\$ 268.7</b>	<b>\$ 512.5</b>

**Lancashire Holdings Limited**  
**summary consolidated balance sheets**



	30 june 2011	31 march 2011	31 december 2010	30 september 2010	30 june 2010
<b>assets</b>					
cash and cash equivalents	\$ 448.9	\$ 493.3	\$ 512.5	\$ 288.1	\$ 268.7
accrued interest receivable	11.8	12.8	13.4	14.6	12.9
investments					
- fixed income securities - available for sale	1,637.3	1,529.9	1,719.1	1,948.1	1,836.9
- at fair value through profit or loss	8.6	1.5	-	-	-
- equity securities - available for sale	75.2	29.8	-	-	-
- other investments	(0.4)	(0.4)	(0.2)	(0.3)	1.1
reinsurance assets					
- unearned premiums on premiums ceded	29.2	24.9	2.9	11.7	20.2
- reinsurance recoveries	46.1	41.0	35.9	44.0	47.8
- other receivables	0.1	2.5	5.6	3.6	2.0
deferred acquisition costs	70.5	62.7	61.2	70.1	74.8
inwards premiums receivable from insureds and cedants	292.6	239.3	217.5	232.4	285.4
investment in associate	7.5	-	-	-	-
other assets	24.8	61.6	59.5	22.3	25.7
<b>total assets</b>	<b>\$ 2,652.2</b>	<b>\$ 2,498.9</b>	<b>\$ 2,627.4</b>	<b>\$ 2,634.6</b>	<b>\$ 2,575.5</b>
<b>liabilities</b>					
insurance contracts					
- losses and loss adjustment expenses	\$ 576.7	\$ 576.6	\$ 507.5	\$ 565.7	\$ 583.7
- unearned premiums	418.5	365.1	350.6	415.1	438.0
- other payables	19.7	16.0	20.6	17.0	19.6
amounts payable to reinsurers	22.8	20.9	4.4	6.2	12.7
deferred acquisition costs ceded	1.2	0.7	0.1	2.6	2.8
other payables	101.4	106.7	328.5	52.7	31.5
long-term debt	131.5	130.8	128.8	129.7	126.3
<b>total liabilities</b>	<b>1,271.8</b>	<b>1,216.8</b>	<b>1,340.5</b>	<b>1,189.0</b>	<b>1,214.6</b>
<b>shareholders' equity</b>					
share capital	84.3	84.3	84.3	84.3	86.7
own shares	(90.5)	(110.3)	(106.9)	(111.0)	(117.1)
share premium	2.4	2.4	2.4	2.4	2.4
contributed surplus	659.6	669.7	662.6	661.9	699.1
accumulated other comprehensive income	32.2	26.0	28.2	63.0	43.2
other reserves	68.2	74.7	70.7	67.2	65.4
dividends	(18.9)	(18.9)	(294.2)	(30.2)	(20.8)
retained earnings	643.1	554.2	839.8	708.0	602.0
<b>total shareholders' equity</b>	<b>\$ 1,380.4</b>	<b>\$ 1,282.1</b>	<b>\$ 1,286.9</b>	<b>\$ 1,445.6</b>	<b>\$ 1,360.9</b>
<b>total liabilities and shareholders' equity</b>	<b>\$ 2,652.2</b>	<b>\$ 2,498.9</b>	<b>\$ 2,627.4</b>	<b>\$ 2,634.6</b>	<b>\$ 2,575.5</b>
basic book value per share	\$ 8.90	\$ 8.39	\$ 8.45	\$ 9.53	\$ 8.74
fully converted book value per share	\$ 7.96	\$ 7.50	\$ 7.57	\$ 8.43	\$ 7.86
fully diluted book value per share	\$ 7.86	\$ 7.39	\$ 7.46	\$ 8.30	\$ 7.76
debt to total capital ratio	8.7%	9.3%	9.1%	8.2%	8.5%

**Lancashire Holdings Limited**  
composition of investment portfolio



	30 june 2011	%	31 march 2011	%	31 december 2010	%	30 september 2010	%	30 june 2010	%
<b>type of investment</b>										
short term investments	\$ 45.7	2.2%	\$ 57.7	2.9%	\$ 12.1	0.5%	\$ 31.1	1.4%	\$ 99.5	4.8%
U.S. treasuries	251.3	11.9%	227.1	11.4%	300.5	13.7%	511.8	23.1%	409.9	19.7%
other government bonds	178.4	8.5%	168.0	8.4%	181.4	8.2%	195.9	8.9%	144.4	7.0%
U.S. municipal bonds	22.1	1.0%	14.8	0.7%	10.9	0.5%	11.5	0.5%	11.2	0.5%
U.S. government agency debt	28.1	1.3%	25.9	1.3%	34.4	1.6%	38.8	1.8%	36.5	1.8%
asset backed securities	73.1	3.5%	31.2	1.5%	19.7	0.9%	16.6	0.7%	4.6	0.2%
U.S. government agency mortgage backed securities	222.2	10.5%	212.4	10.6%	337.5	15.3%	351.2	15.9%	385.7	18.5%
non-agency mortgage backed securities	24.7	1.2%	17.3	0.9%	16.5	0.8%	5.9	0.3%	5.9	0.3%
agency commercial mortgage backed securities	1.1	0.1%	1.1	0.1%	-	-	-	-	-	-
non-agency commercial mortgage backed securities	24.4	1.2%	24.1	1.2%	26.7	1.2%	22.8	1.0%	19.5	0.9%
corporate bonds - non FDIC guaranteed	685.6	32.6%	667.0	33.3%	683.9	31.1%	627.5	28.4%	576.8	27.7%
corporate bonds - FDIC guaranteed	80.6	3.8%	83.3	4.2%	95.5	4.3%	135.0	6.1%	142.9	6.9%
<b>total fixed income securities - available for sale</b>	<b>1,637.3</b>	<b>77.8%</b>	<b>1,529.9</b>	<b>76.5%</b>	<b>1,719.1</b>	<b>78.1%</b>	<b>1,948.1</b>	<b>88.1%</b>	<b>1,836.9</b>	<b>88.3%</b>
convertible debt securities - at fair value through profit or loss	8.6	0.4%	1.5	0.1%	-	-	-	-	-	-
equity securities - available for sale	75.2	3.6%	29.8	1.5%	-	-	-	-	-	-
other investments	(0.4)	-	(0.4)	-	(0.2)	-	(0.3)	-	1.1	0.1%
managed cash	383.6	18.2%	437.4	21.9%	481.8	21.9%	263.6	11.9%	241.3	11.6%
<b>total investments</b>	<b>\$ 2,104.3</b>	<b>100.0%</b>	<b>\$ 1,998.2</b>	<b>100.0%</b>	<b>\$ 2,200.7</b>	<b>100.0%</b>	<b>\$ 2,211.4</b>	<b>100.0%</b>	<b>\$ 2,079.3</b>	<b>100.0%</b>
<b>credit quality of fixed income securities</b>										
AAA	\$ 871.7	53.2%	\$ 819.2	53.6%	\$ 968.3	56.3%	\$ 1,235.4	63.4%	\$ 1,213.7	66.1%
AA+, AA, AA-	142.0	8.7%	145.6	9.5%	147.5	8.6%	147.2	7.6%	128.4	7.0%
A+, A, A-	419.9	25.6%	373.3	24.4%	375.2	21.8%	342.7	17.6%	315.5	17.2%
BBB+, BBB, BBB-	146.7	9.0%	150.0	9.8%	182.9	10.7%	175.6	9.0%	149.6	8.1%
other	57.0	3.5%	41.8	2.7%	45.2	2.6%	47.2	2.4%	29.7	1.6%
<b>\$ 1,637.3</b>	<b>100.0%</b>		<b>\$ 1,529.9</b>	<b>100.0%</b>	<b>\$ 1,719.1</b>	<b>100.0%</b>	<b>\$ 1,948.1</b>	<b>100.0%</b>	<b>\$ 1,836.9</b>	<b>100.0%</b>
<b>corporate bonds</b>										
industrial	\$ 294.2	38.4%	\$ 291.8	38.9%	\$ 300.3	38.5%	\$ 278.5	36.5%	\$ 254.7	35.4%
financial - non FDIC guaranteed	310.9	40.6%	297.4	39.6%	272.8	35.0%	248.3	32.6%	235.6	32.7%
utility	51.1	6.7%	52.1	6.9%	64.6	8.3%	58.0	7.6%	52.4	7.3%
other	1.5	0.2%	0.5	0.1%	11.9	1.5%	12.0	1.6%	13.0	1.8%
foreign agencies	27.9	3.6%	25.2	3.4%	34.3	4.4%	30.7	4.0%	21.1	2.9%
financial - FDIC guaranteed	80.6	10.5%	83.3	11.1%	95.5	12.3%	135.0	17.7%	142.9	19.9%
<b>\$ 766.2</b>	<b>100.0%</b>		<b>\$ 750.3</b>	<b>100.0%</b>	<b>\$ 779.4</b>	<b>100.0%</b>	<b>\$ 762.5</b>	<b>100.0%</b>	<b>\$ 719.7</b>	<b>100.0%</b>
quarterly net return on total investments		1.1%		0.6%		(0.4%)		2.0%		1.4%
rolling 12 months net return on total investments		3.3%		3.6%		4.2%		5.2%		4.7%
average book yield of fixed income and managed cash		2.2%		2.2%		2.4%		2.6%		2.8%
average market yield of fixed income and managed cash		1.6%		1.7%		1.9%		1.5%		1.9%
average duration of fixed income and managed cash		1.8 years		1.8 years		2.2 years		2.4 years		2.4 years
average credit quality of fixed income and managed cash		AA		AA		AA		AA		AA



Lancashire Holdings Limited  
investment portfolio - sector detail



30 june 2011						
	estimated fair value	weighted average book yield	weighted average market yield	weighted average duration	weighted average rating	
<b>type of investment</b>						
short term investments	\$ 45.7	0.4%	0.7%	0.1	AAA	
U.S. treasuries	251.3	0.7%	1.0%	3.1	AAA	
other government bonds	178.4	4.2%	4.0%	2.7	A	
U.S. municipal bonds	22.1	3.9%	3.3%	3.6	A+	
U.S. government agency debt	28.1	1.5%	0.7%	1.3	AAA	
asset backed securities	73.1	1.1%	1.3%	0.3	AAA	
U.S. government agency mortgage backed securities	222.2	3.4%	1.8%	2.1	AAA	
non-agency mortgage backed securities	24.7	1.8%	2.7%	0.2	AAA	
agency commercial mortgage backed securities	1.1	4.2%	3.7%	7.5	AAA	
non-agency commercial mortgage backed securities	24.4	4.1%	3.4%	4.0	AAA	
corporate bonds - non FDIC guaranteed	685.6	3.0%	1.9%	2.1	A	
corporate bonds - FDIC guaranteed	80.6	2.2%	0.4%	0.9	AAA	
<b>total fixed income securities - available for sale</b>	<b>1,637.3</b>	<b>2.6%</b>	<b>1.9%</b>	<b>2.1</b>	<b>AA-</b>	
convertible debt securities - at fair value through profit or loss	8.6	3.0%	3.0%	1.2	NR	
managed cash <sup>(1)</sup>	383.6	0.3%	0.3%	-	AA+	
<b>total fixed income securities and managed cash</b>	<b>\$ 2,029.5</b>	<b>2.2%</b>	<b>1.6%</b>	<b>1.8</b>	<b>AA</b>	

31 december 2010						
	estimated fair value	weighted average book yield	weighted average market yield	weighted average duration	weighted average rating	
<b>type of investment</b>						
short term investments	\$ 12.1	0.5%	0.4%	0.1	AAA	
U.S. treasuries	300.5	1.1%	1.4%	3.5	AAA	
other government bonds	181.4	3.9%	3.4%	2.6	A	
U.S. municipal bonds	10.9	5.9%	6.0%	7.7	A	
U.S. government agency debt	34.4	2.2%	1.6%	3.4	AAA	
asset backed securities	19.7	1.4%	1.3%	0.2	AAA	
U.S. government agency mortgage backed securities	337.5	3.5%	2.7%	2.9	AAA	
non-agency mortgage backed securities	16.5	2.5%	2.9%	1.4	AAA	
non-agency commercial mortgage backed securities	26.7	3.9%	3.7%	3.8	AAA	
corporate bonds - non FDIC guaranteed	683.9	3.4%	2.4%	2.9	A	
corporate bonds - FDIC guaranteed	95.5	2.1%	0.6%	1.3	AAA	
<b>total fixed income securities, available for sale</b>	<b>1,719.1</b>	<b>2.9%</b>	<b>2.3%</b>	<b>2.9</b>	<b>AA</b>	
managed cash <sup>(1)</sup>	481.8	0.3%	0.3%	-	AA+	
<b>total fixed income securities and managed cash</b>	<b>\$ 2,200.9</b>	<b>2.4%</b>	<b>1.9%</b>	<b>2.2</b>	<b>AA</b>	

<sup>(1)</sup> managed cash includes money market funds, treasury bills and agency discount notes. Where book yields are not available, book yield is assumed to be equal to market yield.

**Lancashire Holdings Limited**  
**country exposure**

**30 june 2011**

**top ten emerging market country exposures**

	<b>short term investments</b>	<b>sovereign</b>	<b>agency</b>	<b>corporate</b>	<b>equity</b>	<b>total</b>
Mexico	\$ 0.6	\$ 11.6	\$ 0.3	\$ 8.0	\$ -	\$ 20.5
Russia	0.2	7.7	1.5	9.0	-	18.4
Brazil	-	8.9	0.7	7.8	-	17.4
Indonesia	-	13.3	-	3.0	-	16.3
South Africa	-	11.3	-	0.7	-	12.0
Turkey	1.0	9.1	-	0.2	-	10.3
Poland	-	5.9	-	-	-	5.9
Philippines	-	4.3	-	0.5	1.0	5.8
Venezuela	-	3.9	0.7	0.9	-	5.5
Colombia	-	3.2	-	0.8	1.3	5.3
other emerging markets	0.8	16.1	2.6	12.2	4.0	35.7
	<u>\$ 2.6</u>	<u>\$ 95.3</u>	<u>\$ 5.8</u>	<u>\$ 43.1</u>	<u>\$ 6.3</u>	<u>\$ 153.1</u>

**30 june 2011**

**other government bonds (non U.S.)**

Canada	\$ 25.9
Sweden	12.9
Netherlands	11.2
United Kingdom	9.1
Norway	8.4
Denmark	6.1
Australia	3.7
emerging market sovereign debt	95.3
emerging market agency debt	5.8
	<u>\$ 178.4</u>

**30 june 2011**

**ratings distribution of total  
emerging market portfolio**

AA	\$ 4.1
AA-	0.2
A+	4.5
A	24.7
A-	12.3
BBB+	7.0
BBB	24.8
BBB-	23.8
BB+	19.0
BB	16.9
BB-	5.9
B+	3.1
B	0.5
equity	6.3
avg BBB	<u>\$ 153.1</u>

**Lancashire Holdings Limited**  
corporate issuer and equity exposure



	30 june 2011		
	estimated fair value	% of total equities	% of total investments
<b>distribution of equities by sector</b>			
Utilities	\$ 17.0	22.6%	0.8%
Energy	15.4	20.5%	0.7%
Real estate investment trusts	14.0	18.6%	0.7%
Industrials	6.7	8.9%	0.3%
Technology & Communications	6.3	8.4%	0.3%
Consumer non-cyclical	5.8	7.7%	0.3%
Healthcare	3.3	4.4%	0.2%
Financials	2.9	3.9%	0.1%
Materials	2.8	3.7%	0.1%
Consumer cyclical	1.0	1.3%	0.1%
<b>total equities</b>	<b>\$ 75.2</b>	<b>100.0%</b>	<b>3.6%</b>

	30 june 2011				
	par value units	estimated fair value	accrued interest	unrealised gain (loss)	credit quality
<b>top twenty corporate holdings by issuer</b>					
JP Morgan Chase & Company	26.0	\$ 27.4	\$ 0.3	\$ 0.5	A+
Bank of America Corporation	21.2	22.6	0.2	0.5	A
Morgan Stanley	20.2	21.4	0.2	0.6	A
Citigroup Incorporated	13.8	14.2	0.2	0.2	A
Verizon Communications Inc	11.8	12.9	0.2	1.1	A-
Nordea Bank AB	12.3	12.4	0.1	0.1	AA+
Philip Morris International Incorporated	11.3	12.2	0.1	0.5	A
Oracle Corporation	11.0	11.8	0.1	0.3	A
Swedbank AB	11.1	11.2	-	0.1	AAA
BP PLC	10.5	11.1	0.1	0.3	A
Goldman Sachs Group Incorporated	9.8	10.9	0.1	0.3	A
CIE Financement Foncier	10.4	10.5	0.1	0.1	AAA
International Business Machines Corporation	9.9	10.4	0.1	0.4	A+
US Bancorp	10.3	10.3	-	-	A+
Hewlett Packard Company	10.1	10.3	-	0.1	A
Bank of New York Mellon Corporation	9.5	10.2	0.1	0.4	AA-
General Electric Company	9.5	9.6	-	0.1	AA+
Wal-Mart Stores Incorporated	9.2	9.5	-	0.3	AA
Wells Fargo & Company	8.7	9.0	0.1	0.2	AA-
Credit Suisse Group Ag	8.4	8.8	0.1	-	A+
		<b>\$ 256.7</b>	<b>\$ 2.1</b>	<b>\$ 6.1</b>	<b>average A+</b>
<b>top twenty holdings as a % of non-FDIC corporate bonds</b>		<b>37.4%</b>			

**Lancashire Holdings Limited**  
**net losses and loss ratios**

<b>total</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>
net reserves: start	\$ 535.6	\$ 471.6	\$ 521.7	\$ 535.9	\$ 572.8
paid losses	20.0	39.5	38.8	37.5	56.0
change in prior year AY <sup>(1)</sup>	(46.1)	(50.8)	(21.8)	(22.2)	(39.3)
current year incurred losses	58.6	148.1	12.7	36.1	66.3
foreign exchange	2.5	6.2	(2.2)	9.4	(7.9)
net reserves: end	<u>\$ 530.6</u>	<u>\$ 535.6</u>	<u>\$ 471.6</u>	<u>\$ 521.7</u>	<u>\$ 535.9</u>
net premiums earned	\$ 142.3	\$ 145.2	\$ 149.4	\$ 148.4	\$ 144.6
net loss ratio	8.8%	67.0%	(6.1%)	9.4%	18.7%
IBNR as % of net reserves	29.9%	46.5%	40.6%	37.6%	35.6%

<b>property</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>
net reserves: start	\$ 251.1	\$ 165.0	\$ 173.3	\$ 176.3	\$ 191.9
paid losses	5.1	14.7	7.2	11.7	5.6
change in prior year AY <sup>(1)</sup>	(26.7)	(8.6)	5.1	(5.6)	(17.1)
current year incurred losses	12.0	104.5	(4.4)	7.3	12.7
foreign exchange	2.5	4.9	(1.8)	7.0	(5.6)
net reserves: end	<u>\$ 233.8</u>	<u>\$ 251.1</u>	<u>\$ 165.0</u>	<u>\$ 173.3</u>	<u>\$ 176.3</u>
net premiums earned	\$ 65.4	\$ 71.4	\$ 72.1	\$ 67.1	\$ 75.7
net loss ratio	(22.5%)	134.3%	1.0%	2.5%	(5.8%)

<b>energy</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>
net reserves: start	\$ 207.9	\$ 210.2	\$ 247.3	\$ 258.7	\$ 276.8
paid losses	10.8	15.0	28.4	22.1	41.4
change in prior year AY <sup>(1)</sup>	(12.7)	(22.7)	(20.0)	(10.7)	(15.2)
current year incurred losses	37.5	34.9	11.3	20.8	39.1
foreign exchange	(0.2)	0.5	-	0.6	(0.6)
net reserves: end	<u>\$ 221.7</u>	<u>\$ 207.9</u>	<u>\$ 210.2</u>	<u>\$ 247.3</u>	<u>\$ 258.7</u>
net premiums earned	\$ 46.2	\$ 45.0	\$ 49.7	\$ 50.0	\$ 37.9
net loss ratio	53.7%	27.1%	(17.5%)	20.2%	63.1%

<b>marine</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>
net reserves: start	\$ 75.3	\$ 89.9	\$ 94.0	\$ 93.3	\$ 92.1
paid losses	4.0	9.8	3.2	3.7	9.0
change in prior year AY <sup>(1)</sup>	(6.6)	(14.1)	(6.3)	(5.3)	(2.5)
current year incurred losses	9.2	8.6	5.8	8.0	14.3
foreign exchange	0.3	0.7	(0.4)	1.7	(1.6)
net reserves: end	<u>\$ 74.2</u>	<u>\$ 75.3</u>	<u>\$ 89.9</u>	<u>\$ 94.0</u>	<u>\$ 93.3</u>
net premiums earned	\$ 18.1	\$ 17.6	\$ 15.6	\$ 17.6	\$ 17.5
net loss ratio	14.4%	(31.3%)	(3.2%)	15.3%	67.4%

<b>aviation</b>	<b>q2 2011</b>	<b>q1 2011</b>	<b>q4 2010</b>	<b>q3 2010</b>	<b>q2 2010</b>
net reserves: start	\$ 1.3	\$ 6.5	\$ 7.1	\$ 7.6	\$ 12.0
paid losses	0.1	-	-	-	-
change in prior year AY <sup>(1)</sup>	(0.1)	(5.4)	(0.6)	(0.6)	(4.5)
current year incurred losses	(0.1)	0.1	-	-	0.2
foreign exchange	(0.1)	0.1	-	0.1	(0.1)
net reserves: end	<u>\$ 0.9</u>	<u>\$ 1.3</u>	<u>\$ 6.5</u>	<u>\$ 7.1</u>	<u>\$ 7.6</u>
net premiums earned	\$ 12.6	\$ 11.2	\$ 12.0	\$ 13.7	\$ 13.5
net loss ratio	(1.6%)	(47.3%)	(5.0%)	(4.4%)	(31.9%)

<sup>(1)</sup> AY = accident year

**Lancashire Holdings Limited**  
**losses by accident year**

**gross losses**

<u>accident year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
estimate of ultimate liability:						
at end of accident year	39.1	154.8	444.6	163.3	297.4	-
one year later	34.7	131.2	417.4	107.8	-	-
two years later	32.0	103.5	377.5	-	-	-
three years later	27.6	94.8	-	-	-	-
four years later	27.2	-	-	-	-	-
as at 31 december 2010	<u>\$ 27.2</u>	<u>\$ 94.8</u>	<u>\$ 377.5</u>	<u>\$ 107.8</u>	<u>\$ 297.4</u>	<u>\$ -</u>
as at 30 june 2011	<u>\$ 25.5</u>	<u>\$ 84.8</u>	<u>\$ 362.0</u>	<u>\$ 81.3</u>	<u>\$ 258.7</u>	<u>\$ 223.7</u>
payments made	(21.4)	(71.1)	(252.2)	(30.3)	(81.9)	(2.4)
<b>total gross liability</b>	<b><u>\$ 4.1</u></b>	<b><u>\$ 13.7</u></b>	<b><u>\$ 109.8</u></b>	<b><u>\$ 51.0</u></b>	<b><u>\$ 176.8</u></b>	<b><u>\$ 221.3</u></b>
accident year gross loss ratio <sup>(1)</sup>	8.4%	12.2%	53.2%	12.5%	39.4%	71.7%

**net losses**

<u>accident year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
estimate of ultimate liability:						
at end of accident year	39.1	151.2	403.9	161.7	263.6	-
one year later	34.7	125.0	370.3	106.5	-	-
two years later	32.0	99.5	334.4	-	-	-
three years later	27.6	91.3	-	-	-	-
four years later	27.2	-	-	-	-	-
as at 31 december 2010	<u>\$ 27.2</u>	<u>\$ 91.3</u>	<u>\$ 334.4</u>	<u>\$ 106.5</u>	<u>\$ 263.6</u>	<u>\$ -</u>
as at 30 june 2011	<u>\$ 25.5</u>	<u>\$ 81.5</u>	<u>\$ 319.1</u>	<u>\$ 80.6</u>	<u>\$ 225.0</u>	<u>\$ 209.8</u>
payments made	(21.4)	(68.0)	(224.1)	(30.3)	(64.7)	(2.4)
<b>total net liability</b>	<b><u>\$ 4.1</u></b>	<b><u>\$ 13.5</u></b>	<b><u>\$ 95.0</u></b>	<b><u>\$ 50.3</u></b>	<b><u>\$ 160.3</u></b>	<b><u>\$ 207.4</u></b>
accident year net loss ratio <sup>(1)</sup>	10.5%	13.3%	52.5%	13.6%	36.6%	73.0%
initial accident year net loss ratio	16.1%	24.7%	66.5%	27.2%	42.9%	n/a
reduction in net loss ratio post accident year end	5.6%	11.4%	14.0%	13.6%	6.3%	n/a

<sup>(1)</sup> accident year loss ratio is calculated using the ultimate liability revalued at the current balance sheet date

**Lancashire Holdings Limited**  
**estimated exposures to peak zone elemental losses**

zones	perils	1 july 2011 100 year return period		1 july 2011 250 year return period	
		estimated gross loss	estimated net loss	estimated gross loss	estimated net loss
gulf of mexico <sup>(1)</sup>	hurricane	\$ 286.3	\$ 251.6	\$ 416.6	\$ 369.4
california	earthquake	115.4	100.6	219.0	190.0
pacific northwest	earthquake	35.7	35.3	134.0	123.2
pan-european	windstorm	131.1	110.1	198.8	174.0
japan	earthquake	195.7	180.2	284.3	269.5
japan	typhoon	135.0	110.6	261.4	233.5

THE GROUP HAS DEVELOPED THE ESTIMATES OF LOSSES EXPECTED FROM CERTAIN CATASTROPHES FOR ITS PORTFOLIO OF PROPERTY AND ENERGY CONTRACTS USING COMMERCIALY AVAILABLE CATASTROPHE MODELS, WHICH ARE APPLIED AND ADJUSTED BY THE GROUP. THESE ESTIMATES INCLUDE ASSUMPTIONS REGARDING THE LOCATION, SIZE AND MAGNITUDE OF AN EVENT, THE FREQUENCY OF EVENTS, THE CONSTRUCTION TYPE AND DAMAGEABILITY OF PROPERTY IN A ZONE, AND THE COST OF REBUILDING PROPERTY IN A ZONE, AMONG OTHER ASSUMPTIONS. RETURN PERIOD REFERS TO THE FREQUENCY WITH WHICH LOSSES OF A GIVEN AMOUNT OR GREATER ARE EXPECTED TO OCCUR.

GROSS LOSS ESTIMATES ARE BEFORE INCOME TAX AND NET OF REINSTATEMENT PREMIUMS AND FACULTATIVE REINSURANCE. NET LOSS ESTIMATES ARE BEFORE INCOME TAX, NET OF REINSTATEMENT PREMIUMS AND NET OF OUTWARD REINSURANCE.

THE ESTIMATES OF LOSSES ABOVE ARE BASED ON ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES. IN PARTICULAR, MODELED LOSS ESTIMATES DO NOT NECESSARILY ACCURATELY PREDICT ACTUAL LOSSES, AND MAY SIGNIFICANTLY DEVIATE FROM ACTUAL LOSSES. SUCH ESTIMATES, THEREFORE, SHOULD NOT BE CONSIDERED AS A REPRESENTATION OF ACTUAL LOSSES AND INVESTORS SHOULD NOT RELY ON THE ESTIMATED EXPOSURE INFORMATION WHEN CONSIDERING INVESTMENT IN THE GROUP. THE GROUP UNDERTAKES NO DUTY TO UPDATE OR REVISE SUCH INFORMATION TO REFLECT THE OCCURRENCE OF FUTURE EVENTS.

<sup>(1)</sup> landing hurricane from florida to texas

**Lancashire Holdings Limited**  
**earnings per share**

	<b>q2 2011</b>	<b>q2 2010</b>	<b>ytd 2011</b>	<b>ytd 2010</b>	<b>full year 2010</b>
<b>basic earnings per share:</b>					
profit after tax	\$ 88.9	\$ 84.8	\$ 97.5	\$ 93.0	\$ 330.8
net operating income	\$ 86.3	\$ 77.8	\$ 93.2	\$ 85.7	\$ 306.5
<b>dilutive shares</b>					
weighted average shares outstanding - basic	153,752,249	160,593,945	153,135,409	165,217,429	158,806,410
dilutive effect of warrants	18,538,842	11,841,956	17,651,273	11,923,712	14,214,198
dilutive effect of stock options	653,629	548,072	637,225	556,092	500,310
dilutive effect of restricted stock	4,170,764	2,411,494	4,036,685	2,416,870	3,990,315
weighted average & equivalent shares outstanding - diluted	<u>177,115,484</u>	<u>175,395,467</u>	<u>175,460,592</u>	<u>180,114,103</u>	<u>177,511,233</u>
<b>basic earnings per share</b>	<b>\$ 0.58</b>	<b>\$ 0.53</b>	<b>\$ 0.64</b>	<b>\$ 0.56</b>	<b>\$ 2.08</b>
<b>diluted earnings per share</b>	<b>\$ 0.50</b>	<b>\$ 0.48</b>	<b>\$ 0.56</b>	<b>\$ 0.52</b>	<b>\$ 1.86</b>
<b>diluted operating earnings per share</b>	<b>\$ 0.49</b>	<b>\$ 0.44</b>	<b>\$ 0.53</b>	<b>\$ 0.48</b>	<b>\$ 1.73</b>

**Lancashire Holdings Limited**  
**basic and fully converted book value per share**

	<u>30 june 2011</u>	<u>31 march 2011</u>	<u>31 december 2010</u>	<u>30 september 2010</u>	<u>30 june 2010</u>
numerator (\$ in millions):					
shareholders' equity	\$ 1,380.4	\$ 1,282.1	\$ 1,286.9	\$ 1,445.6	\$ 1,360.9
proceeds from assumed exercise of outstanding dilutive warrants	169.7	173.3	177.7	178.3	179.4
proceeds from assumed exercise of outstanding dilutive options	2.5	3.5	2.3	7.4	6.2
book value numerator	<u>\$ 1,552.6</u>	<u>\$ 1,458.9</u>	<u>\$ 1,466.9</u>	<u>\$ 1,631.3</u>	<u>\$ 1,546.5</u>
denominator (in shares):					
common voting shares outstanding	155,050,457	152,898,018	152,367,003	151,684,042	155,791,315
shares issuable upon exercise of outstanding dilutive warrants	34,809,587	35,602,930	36,498,390	36,648,390	36,932,789
shares issuable upon exercise of outstanding dilutive options	892,780	1,292,991	863,644	1,759,895	1,507,491
shares relating to dilutive restricted stock	<u>4,181,469</u>	<u>4,677,310</u>	<u>4,122,964</u>	<u>3,507,393</u>	<u>2,490,766</u>
fully converted book value denominator	<u>194,934,293</u>	<u>194,471,249</u>	<u>193,852,001</u>	<u>193,599,720</u>	<u>196,722,361</u>
<b>basic book value per share</b>	<u><b>\$ 8.90</b></u>	<u><b>\$ 8.39</b></u>	<u><b>\$ 8.45</b></u>	<u><b>\$ 9.53</b></u>	<u><b>\$ 8.74</b></u>
<b>fully converted book value per share</b>	<u><b>\$ 7.96</b></u>	<u><b>\$ 7.50</b></u>	<u><b>\$ 7.57</b></u>	<u><b>\$ 8.43</b></u>	<u><b>\$ 7.86</b></u>
dividend per common share <sup>(1)</sup>	\$ -	\$ 0.10	\$ 1.40	\$ 0.05	\$ -
change in FCBVS adj for dividends <sup>(2)</sup> - quarter	6.1%	0.4%	6.4%	7.9%	6.5%
change in FCBVS adj for dividends <sup>(2)</sup> - rolling 12 months	23.1%	23.7%	23.3%	24.4%	24.2%
compound annual change in FCBVS adj for dividends <sup>(2)</sup>	19.9%	19.7%	20.3%	20.0%	19.4%
compound annual change in FCBVS adj for dividends <sup>(2)</sup> - above 3 month treasury	17.9%	17.6%	18.2%	17.8%	17.0%
change in FCBVS adj for dividends <sup>(2)</sup> - since inception	171.3%	156.8%	152.4%	138.0%	122.0%

<sup>(1)</sup> warrants and restricted stock contain anti-dilution provisions in regards to dividends; the exercise price of options may be adjusted for dividend payments

<sup>(2)</sup> change in fully converted book value per share ("FCBVS") adjusted for dividends is the internal rate of return of the change in fully converted book value per share in the period plus dividends accrued



**Lancashire Holdings Limited**  
**basic and fully diluted book value per share**

	<u>30 june 2011</u>	<u>31 march 2011</u>	<u>31 december 2010</u>	<u>30 september 2010</u>	<u>30 june 2010</u>
shareholders' equity	\$ 1,380.4	\$ 1,282.1	\$ 1,286.9	\$ 1,445.6	\$ 1,360.9
weighted average exercise price per share of dilutive warrants	\$ 4.87	\$ 4.87	\$ 4.87	\$ 4.86	\$ 4.86
weighted average exercise price per share of dilutive options	\$ 2.79	\$ 2.72	\$ 2.65	\$ 4.21	\$ 4.12
denominator (in shares):					
common voting shares outstanding	155,050,457	152,898,018	152,367,003	151,684,042	155,791,315
unvested restricted shares and restricted share units	4,181,469	4,677,310	4,122,964	3,507,393	2,490,766
dilutive warrants outstanding	34,809,587	35,602,930	36,498,390	36,648,390	36,932,789
proforma warrants bought back	<u>(19,059,509)</u>	<u>(20,664,075)</u>	<u>(21,034,819)</u>	<u>(18,703,607)</u>	<u>(20,540,337)</u>
proforma net shares issued	15,750,078	14,938,855	15,463,571	17,944,783	16,392,452
dilutive options outstanding	892,780	1,292,991	863,644	1,759,895	1,507,491
proforma options bought back	<u>(279,826)</u>	<u>(419,098)</u>	<u>(271,039)</u>	<u>(776,532)</u>	<u>(710,545)</u>
proforma net shares issued	612,954	873,893	592,605	983,363	796,946
proforma dilutive shares outstanding	<u>175,594,958</u>	<u>173,388,076</u>	<u>172,546,143</u>	<u>174,119,581</u>	<u>175,471,479</u>
<b>basic book value per common share</b>	<b>\$ 8.90</b>	<b>\$ 8.39</b>	<b>\$ 8.45</b>	<b>\$ 9.53</b>	<b>\$ 8.74</b>
<b>diluted book value per common share</b>	<b>\$ 7.86</b>	<b>\$ 7.39</b>	<b>\$ 7.46</b>	<b>\$ 8.30</b>	<b>\$ 7.76</b>
dividend per common share <sup>(1)</sup>	\$ -	\$ 0.10	\$ 1.40	\$ 0.05	\$ -
change in FDBVS adj for dividends <sup>(2)</sup> - quarter	6.4%	0.4%	6.8%	7.6%	6.3%
change in FDBVS adj for dividends <sup>(2)</sup> - rolling 12 months	23.4%	23.6%	23.4%	24.1%	24.2%
compound annual change in FDBVS adj for dividends <sup>(2)</sup>	19.7%	19.5%	20.1%	19.7%	19.1%
compound annual change in FDBVS adj for dividends <sup>(2)</sup> - above 3 month treasury	17.7%	17.4%	17.9%	17.5%	16.7%
change in FDBVS adj for dividends <sup>(2)</sup> - since inception	169.0%	154.3%	149.9%	135.1%	119.8%

<sup>(1)</sup> warrants and restricted stock contain anti-dilution provisions in regards to dividends; the exercise price of options may be adjusted for dividend payments

<sup>(2)</sup> change in fully diluted book value per share ("FDBVS") adjusted for dividends is the internal rate of return of the change in fully diluted book value per share in the period plus dividends accrued