# LANCASHIRE HOLDINGS LIMITED

## GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 7.4% IN Q3 2013, 14.7% YEAR TO DATE
## COMBINED RATIO OF 90.8% IN Q3 2013, 69.7% YEAR TO DATE
## 9.99% EQUITY ISSUANCE FOR £131 MILLION
## SPECIAL DIVIDEND OF 45 CENTS PER COMMON SHARE
## FULLY CONVERTED BOOK VALUE PER SHARE OF $7.67 AT 30 SEPTEMBER 2013

6 November 2013
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the third quarter of 2013 and the nine month period ended 30 September 2013.

**Financial highlights**

| | As at 30 Sept 2013 | As at 30 Sept 2012 |
|---|---|---|
| **Fully converted book value per share** | **$7.67** | **$8.47** |
| **Return on equity* – Q3** | **7.4%** | **5.7%** |
| **Return on equity* – YTD** | **14.7%** | **13.2%** |
| **Operating return on average equity – Q3** | **0.8%** | **5.0%** |
| **Operating return on average equity – YTD** | **9.2%** | **12.4%** |
| **Special dividends per common share**** | **$0.45** | **$0.90** |

* Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
** See "Dividends" below for Record Date and Dividend Payment Date.

**Financial highlights:**

| | Three months ended 30 Sept 2013 | Three months ended 30 Sept 2012 | Nine months ended 30 Sept 2013 | Nine months ended 30 Sept 2012 |
|---|---|---|---|---|
| ***Highlights ($m)*** | | | | |
| Gross premiums written | 125.0 | 113.5 | 548.9 | 628.3 |
| Net premiums written | 121.6 | 109.8 | 429.3 | 475.4 |
| Profit before tax | 25.7 | 78.0 | 162.9 | 185.1 |
| Profit after tax*** | 25.4 | 78.8 | 159.5 | 182.5 |
| Comprehensive income*** | 32.3 | 89.1 | 129.8 | 204.3 |
| Net operating profit*** | 11.2 | 74.1 | 132.7 | 176.7 |
| ***Per share data*** | | | | |
| Diluted earnings per share | $0.13 | $0.42 | $0.86 | $1.00 |
| Diluted earnings per share – operating | $0.06 | $0.40 | $0.71 | $0.97 |
| ***Financial ratios*** | | | | |
| Total investment return | 0.4% | 1.1% | - | 2.8% |
| Net loss ratio | 56.4% | 14.6% | 34.7% | 26.0% |
| Combined ratio | 90.8% | 48.9% | 69.7% | 61.1% |
| Accident year loss ratio | 57.4% | 14.2% | 36.8% | 35.8% |

*** These amounts are attributable to Lancashire and exclude non-controlling interests.

**Richard Brindle, Group Chief Executive Officer, commented:**

This has been a very active quarter for Lancashire and marks an important stage in the advancement of Lancashire from its beginnings as a Bermuda-based, single platform, specialty insurer and reinsurer to a resilient, relevant provider with multiple balance sheet and distribution capabilities. We now span insurance and reinsurance, Bermuda and London, traditional rated company, collateralised balance sheets and, following the imminent completion of the Cathedral transaction, Lloyd's. We can provide clients and investors with several different ways to access Lancashire. But at the core remains a total commitment to underwriting expertise and capital management.

The acquisition of Cathedral will be a great boost to our underwriting resources. Peter Scales and John Hamblin have assembled a team of fourteen underwriters there, all of whom are leaders in their business line. Their niche market approach is very similar to Alex Maloney, Paul Gregory and Sylvain Perrier's teams at Lancashire, which is mirrored again by Darren Redhead and the unique Kinesis offering. Already we've seen a lot of new ideas generated from the interaction between the different teams and I'm highly confident that in the coming years the group will become much more than the sum of its separate parts. Opportunities to expand our presence with existing clients using the different vehicles, as well as opportunities to expand our product range are already under consideration. Peter, John, Alex and Paul will be speaking about some of those later today at our Analyst and Investor presentation.

But be under no illusion that the discipline that has underpinned our success will continue to be as rigorous as ever. There are some bright spots in our markets at present although for many pricing is adequate but under pressure. So we will continue to right-size capital across our balance sheet so that we are matching resources to opportunities and not the other way around. We're continuing our active capital management with the announcement of a special dividend – the seventh we have declared since inception. In the absence of opportunities to deploy risk capital, and as long as buying back shares would detract from returns, the special dividend will remain a key tool for us.

Our reported results for the quarter are impacted by a number of factors, but a combined ratio below 70% for the year to date again testifies to the resilience of our portfolio and low attritional losses. The Lancashire Group is broader and better balanced than it has ever been, but its fundamental values are unchanged and embedded in everything we do.

**Elaine Whelan, Group Chief Financial Officer, commented:**

Investment markets, unsurprisingly, remained volatile this quarter and, while the US wind season was quiet, the industry was impacted by losses from the European hail storms and floods. That, combined with some medium sized energy losses, meant that from an operating perspective we had a very average quarter. However, with our August equity issuance in relation to our acquisition of the Cathedral Group, and with our strong multiple, our RoE for the quarter received a substantial boost. That, along with significant foreign exchange gains, again in relation to Cathedral, has produced an exceptional RoE of 7.4% for the quarter, bringing us to 14.7% for the year.

The announcement of our special dividend and dividend equivalent payments of approximately $94.5 million brings our total capital return since inception to $1.8 billion, or 93% of total comprehensive income. Market conditions in 2014 look stable overall for our portfolio. With that outlook we may typically have returned a slightly larger portion of our comprehensive income at this stage but, with our acquisition of Cathedral, we are in the process of re-balancing our capital requirements and reviewing market opportunities as a combined group. As such, we are returning 73% of comprehensive income for the year to date.

As always at Lancashire, reviewing our capital requirements to maximize our risk adjusted returns is a constant activity and we will review our position following the January renewal season.

**Lancashire Renewal Price Index for major classes**

Lancashire's Renewal Price Index ("RPI") is an internal methodology 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 changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI methodology" at the end of this announcement for further guidance). The RPI does not include new business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2012:

| **Class** | **YTD 2013** | **Q3 2013** | **Q2 2013** | **Q1 2013** |
|---|---|---|---|---|
| Aviation (AV52) | 90% | 91% | 94% | 86% |
| Gulf of Mexico energy | 97% | 91% | 97% | 96% |
| Energy offshore worldwide | 98% | 94% | 98% | 99% |
| Marine | 105% | 99% | 100% | 110% |
| Property retrocession and reinsurance | 97% | 87% | 98% | 98% |
| Terrorism | 96% | 97% | 96% | 96% |
| **Combined** | **97%** | **92%** | **97%** | **98%** |

**Underwriting results**

**Gross premiums written**

| | **Q3** | | | | **YTD** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013 $m** | **2012 $m** | **Change $m** | **Change %** | **2013 $m** | **2012 $m** | **Change $m** | **Change %** |
| Property | 71.9 | 46.4 | 25.5 | 55.0 | 290.7 | 322.9 | (32.2) | (10.0) |
| Energy | 32.8 | 47.8 | (15.0) | (31.4) | 175.9 | 215.6 | (39.7) | (18.4) |
| Marine | 10.1 | 11.7 | (1.6) | (13.7) | 52.4 | 65.6 | (13.2) | (20.1) |
| Aviation | 10.2 | 7.6 | 2.6 | 34.2 | 29.9 | 24.2 | 5.7 | 23.6 |
| **Total** | **125.0** | **113.5** | **11.5** | **10.1** | **548.9** | **628.3** | **(79.4)** | **(12.6)** |

Gross premiums written increased by 10.1% in the third quarter of 2013 compared to the same period in 2012. In 2013 to date, gross premiums written decreased by 12.6% compared to the first nine months of 2012. The Group's four principal classes and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 55.0% for the quarter compared to the same period in 2012 and decreased by 10.0% in the first nine months of 2013 compared to the first nine months of 2012. We continued to see increased deal flow in the political and sovereign risk book in the third quarter. We also continued to expand our property catastrophe book as we redeployed capital from our property retrocession book, due to worsening rates and terms and conditions, and the property direct and facultative book, which is in run-off. For the year to date the reduction in property premiums written is primarily due to the reduction of our property retrocession book and our decision to cease writing property direct and facultative business from 1 July 2012. For the year to date, these reductions have been somewhat offset by the writing of new business with core clients in the political and sovereign risk class, which also offset the non-renewal of long term deals written in these classes in the previous year.

Energy gross premiums written for the quarter to date decreased by 31.4% compared to the same period in 2012 and decreased by 18.4% in the first nine months of 2013 compared to the first nine months of 2012. For the quarter to date the decrease is primarily due to renewal timing of non-annual deals in the worldwide offshore and construction books. The decrease in premiums for the year to date is mostly driven by the Gulf of Mexico book, where a number of deals that were written on a multi-year basis in the second quarter of 2012 are not up for renewal yet. During 2013 we continued the expansion of a new sub class – energy liabilities – with $6.2 million of new business premiums written so far this year.

Marine gross premiums written decreased by 13.7% for the quarter compared to the same period in 2012 and by 20.1% in the first nine months of 2013 compared to the first nine months of 2012. The decrease in both quarter and year to date premium volumes across all the marine classes is primarily due to the timing of non-annual contract renewals.

Aviation gross premiums written increased by 34.2% for the quarter compared to the same period in 2012 and by 23.6% in the first nine months of 2013 compared to the first nine months of 2012. Pricing and renewal rates remain under pressure in the AV52 class resulting in a reduction in premiums in both the third quarter and first nine months of 2013 compared to the same periods of 2012. These reductions are offset in both the third quarter and first nine months of 2013 by new satellite premiums written following our re-entry into the class in the third quarter of 2012.

*******

Ceded reinsurance premiums decreased by $0.3 million, or 8.1%, for the quarter and decreased by $33.3 million, or 21.8%, for the nine-month period to 30 September 2013, in each case compared to the same periods in 2012. The third quarter is not a major renewal period for the Group's reinsurance program. With no further cessions to the Accordion vehicles, most of the spend in the quarter related to program adjustments and facultative covers. Total cessions to the Accordion sidecar were $47.7 million in the first nine months of 2013 versus $64.8 million for the first nine months of 2012. The overall decrease for the year is therefore predominantly due to reduced cessions to the Accordion vehicles. The remainder of the decrease was driven by reduced reinstatement premiums on the Group's marine and energy cover plus reduced use of alternative covers given declining underlying exposures. Rate changes and a restructuring of our marine and energy cover in 2013 largely offset each other in premium terms and while we did not renew our property program the reduced spend on that was almost entirely offset by an increase in facultative covers purchased.

*******

Net premiums earned as a proportion of net premiums written were 110.2% in the third quarter of 2013 compared to 131.0% in the same period in 2012 and 91.9% in the nine months to 30 September 2013, compared to 91.6% in the same period in 2012. The higher earnings percentage in the third quarter of 2012 reflects the front loading of premium in 2012 to take advantage of more favourable pricing conditions. Both years benefited from the lag in earnings from long-term contracts written in preceding years.

*******

The Group's net loss ratio for the third quarter of 2013 was 56.4% compared to 14.6% for the same period in 2012 and 34.7% for the nine month period to 30 September 2013 compared to 26.0% for the same period in 2012. The third quarter 2013 net loss ratio was impacted by a number of energy losses, plus the European hail and flood events and some prior year adverse development as some previously reported losses were closed out. The net loss to the Group from the European hail and flood events was $19.7 million, after reinstatement premium. This compared with a low level of reported losses in the same quarter of 2012. The nine months to 30 September 2013 were also impacted by adverse development on the Costa Concordia marine loss of $37.7 million, after reinsurance and reinstatement premium. The nine months to 30 September 2012 were also impacted by the Costa Concordia marine loss with a total estimated net loss on that date of $59.0 million, after reinsurance and reinstatement premium. Our total estimated net loss, after reinsurance and reinstatement premiums, for the Costa Concordia loss remains at $96.9 million.

Prior year favourable development for the third quarter was $0.4 million, compared to $1.0 million of adverse development for the third quarter of 2012. Both periods were impacted by adverse development across a number of claims and some newly reported prior year risk losses. Favourable development was $7.7 million for the 2013 year to date, compared to $42.5 million for the same period in 2012 with 2013 impacted significantly by the adverse development on the Costa Concordia marine loss. Both years otherwise experienced releases due to lower than expected reported losses.

The following tables show the impact of prior year development and large losses on the Group's loss ratio:

| | Q3 2013 | | YTD 2013 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss Ratio %** | **Losses $m** | **Loss Ratio %** |
| At 30 September | 75.6 | 56.4 | 136.9 | 34.7 |
| Absent Europe hail & flood | 55.7 | 41.6 | 117.0 | 29.7 |
| Absent Costa Concordia | - | - | 103.6 | 26.0 |
| Absent remaining prior year development | 76.0 | 56.7 | 177.9 | 44.6 |
| **Adjusted losses and ratio** | **56.1** | **41.9** | **124.7** | **31.3** |

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

| | Q3 2012 | | YTD 2012 | |
|---|---|---|---|---|
| | **Losses $m** | **Loss Ratio %** | **Losses $m** | **Loss Ratio %** |
| At 30 September | 21.0 | 14.6 | 113.4 | 26.0 |
| Absent Costa Concordia | 20.9 | 14.5 | 67.6 | 15.1 |
| Absent prior year development | 20.0 | 13.9 | 155.9 | 35.8 |
| **Adjusted losses and ratio** | **19.9** | **13.8** | **110.1** | **24.5** |

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

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

| | Q3 | | YTD | |
|---|---|---|---|---|
| | **2013 $m** | **2012 $m** | **2013 $m** | **2012 $m** |
| Property | (0.4) | (1.8) | 12.4 | (10.3) |
| Energy | (0.2) | 1.2 | 21.3 | 29.8 |
| Marine | 1.0 | (0.4) | (24.6) | 22.9 |
| Aviation | - | - | (1.4) | 0.1 |
| **Total** | **0.4** | **(1.0)** | **7.7** | **42.5** |

Note: Positive numbers denote favourable development.

The accident year loss ratio for the third quarter of 2013, including the impact of foreign exchange revaluations, was 57.4% compared to 14.2% for the same period in 2012. The 2013 accident year loss ratio for the quarter ended 30 September 2013 would have been 42.6% absent the European hail and flood losses. The year to date accident year loss ratio was 36.8% compared to 35.8% for the nine months to 30 September 2012. The nine months ended 30 September 2013 included 5.0% for the European hail and flood losses. The 2012 accident year loss ratio for the nine months to 30 September 2012 included 11.3% for the Costa Concordia loss. Otherwise, 2012 experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2013 and 2012:

| | **Nine months ended 30 Sept 2013 $m** | **Nine months ended 30 Sept 2012 $m** |
|---|---|---|
| 2006 accident year | (1.1) | 0.4 |
| 2007 accident year | (1.0) | 2.3 |
| 2008 accident year | (6.6) | (1.4) |
| 2009 accident year | 2.1 | 6.2 |
| 2010 accident year | 1.1 | 9.5 |
| 2011 accident year | 4.4 | 25.5 |
| 2012 accident year | 8.8 | - |
| **Total** | **7.7** | **42.5** |

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 31.5% at 30 September 2013 compared to 29.2% at 30 September 2012.

**Investments**

Net investment income, excluding realised and unrealised gains and losses, was $6.1 million for the third quarter of 2013, a decrease of 17.6% from the third quarter of 2012. Net investment income was $18.7 million for the nine months ended 30 September 2013 a decrease of 23.7% compared to the same period in 2012. Average book yields over the quarter and first nine months of 2013 were lower than the same periods in 2012. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $8.4 million for the third quarter of 2013 compared to $21.7 million for the third quarter of 2012, and was $0.3 million for the 2013 year to date compared to $55.7 million for the same period in 2012. Treasury yields and credit spreads increased in the first half of 2013, which had a significant impact on our portfolio, particularly on our emerging market debt portfolio. Strong returns in our bank loan and emerging market debt portfolios in the third quarter offset the losses of the first half with resulting portfolio performance flat for the year to date. In the corresponding periods of 2012 our portfolio benefited from significant credit spread tightening, particularly in the emerging market debt portfolio.

Currently 2.9% of the portfolio is allocated to the emerging market debt portfolio with an overall average credit quality of BBB. The corporate bond allocation represented 26.0% of managed invested assets at 30 September 2013 compared to 28.4% at 30 September 2012. At 30 September 2013 the Group's allocation to bank loans represented 3.5% of the portfolio. The allocation to bank loans is part of our interest rate risk management strategy. The group also implemented a tail-risk hedging strategy in the first half of 2013 to protect the fixed income portfolio from a significant increase in interest rates.

The managed portfolio was as follows:

| | **As at 30 Sept 2013** | **As at 31 Dec 2012** | **As at 30 Sept 2012** |
|---|---|---|---|
| Fixed income securities | 73.0% | 88.9% | 84.8% |
| Other investments | 0.2% | - | - |
| Cash and cash equivalents | 26.8% | 11.1% | 15.2% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

Key investment portfolio statistics are:

| | As at 30 Sept 2013 | As at 31 Dec 2012 | As at 30 Sept 2012 |
|---|---|---|---|
| Duration | 1.0 years | 1.8 years | 1.6 years |
| Credit quality | AA- | AA- | AA |
| Book yield | 1.4% | 1.8% | 1.7% |
| Market yield | 1.1% | 1.1% | 0.9% |

**Lancashire Capital Management**

The share of profit of associates of $2.5 million for the third quarter of 2013 and $8.7 million for the first nine months of 2013 reflects Lancashire's 20% equity interest in the Accordion vehicles and 16.9% interest in the Saltire vehicle. The share of profit of associates was $2.9 million for the third quarter of 2012 and $4.4 million for the first nine months of 2012 and related entirely to the Accordion vehicle.

Kinesis Capital Management Limited ("KCM") is now developing opportunities with a view to underwriting fully collateralised business on behalf of Kinesis Reinsurance I Limited.

**Cathedral**

In August 2013 Lancashire announced that it had entered into conditional agreements to acquire Cathedral Capital Limited ("Cathedral"), a privately owned Lloyd's insurer, for £266 million, representing a multiple of 1.60x net tangible assets of Cathedral as at 31 March 2013. This will be funded through a combination of internally available cash resources and the net proceeds of the August 2013 placing of 16,843,382 new common shares in the Lancashire. Completion of the acquisition is expected to occur shortly.

The commitment to purchase Cathedral has been economically hedged by retaining the August share issuance proceeds in Pounds Sterling and by entering into currency forward contracts for the remainder of the purchase price. Sterling has devalued since the commitment date resulting in a foreign exchange gain of $17.5 million in the quarter on the hedge of the purchase commitment. There is no corresponding liability for the purchase commitment recognised on the balance sheet.

**Other operating expenses**

Operating expenses consist of the following items:

| | Q3 | | YTD | |
|---|---|---|---|---|
| | 2013 $m | 2012 $m | 2013 $m | 2012 $m |
| Employee remuneration | 9.0 | 10.9 | 27.8 | 38.4 |
| Other operating expenses | 7.3 | 10.1 | 22.8 | 24.1 |
| **Total** | **16.3** | **21.0** | **50.6** | **62.5** |

Employee remuneration costs are $1.9 million lower in third quarter of 2013 compared to the same period in the prior year as a result of a reduction in headcount. That reduction also impacted the full year costs. In 2012, in the first quarter, employee remuneration included a one-off national insurance charge of $6.9 million, incurred as a result of the Group's tax residency move to the UK with effect from 1 January 2012. The third quarter of 2012 included $2.8 million in one-off IT software costs.

Equity based compensation was $4.6 million in the third quarter of 2013 compared to $6.6 million in the same period last year. For the nine months to 30 September 2013 and 2012 the charge was $11.8 million and $12.5 million respectively. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations.

**Capital**

At 30 September 2013, total capital available to Lancashire was $1.749 billion, comprising shareholders' equity of $1.489 billion and $259.5 million of long-term debt. Leverage was 14.8%. Total capital at 30 September 2012 was $1.636 billion.

During the third quarter of 2013 a total of 16,843,382 new common shares in Lancashire were placed at a price of 780 pence per share, raising total gross proceeds of approximately £131 million for the Company. The shares issued represented approximately 9.99 % of the issued common share capital of Lancashire prior to the placing.

**Dividends**

During the third quarter of 2013, the Lancashire Board of Directors paid an interim dividend for 2013 of $0.05 (£0.03) per common share. The dividends and dividend equivalent payments, totaling $10.5 million in aggregate, were paid on 25 September 2013 to shareholders of record on 23 August 2013.

**Special dividend**

Lancashire announces that its Board of Directors has declared a special dividend for 2013 of $0.45 per common share (approximately £0.28 per common share at the current exchange rate), which will result in an aggregate payment of approximately $81.3 million. The dividend will be paid in Pounds Sterling on 20 December 2013 (the "Dividend Payment Date") to shareholders of record on 29 November 2013 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP") or other services including international payment, are encouraged to contact the Group registrars, Capita Registrars for more details at: http://www.capitaregistrars.com/shareholder.aspx

In addition to the special dividend payment to shareholders, a dividend equivalent payment of approximately $13.2 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

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.

**Financial information**

**Further details of our 2013 third quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.**

**Analyst and Investor Earnings Conference Call**

There will be an analyst and investor conference call on the results at 12:30pm UK time / 7:30am EST on Wednesday, 6 November 2013. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44 (0) 203 139 4830 / + 1 718 873 9077 (Toll Free UK +44 (0) 808 237 0030 / Toll Free US + 1 866 928 7517) all with the confirmation code 95996023#. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available for two weeks until Wednesday, 20 November 2013. The dial in number for the replay facility is Toll +44 (0) 203 426 2807 or Toll Free UK +44 (0) 808 237 0026 with passcode 642320#. The replay facility will also be accessible at www.lancashiregroup.com

Lancashire will also hold an Investor Day at the London Stock Exchange commencing at 2:00pm UK time on Wednesday, 6 November 2013, following the conference call.

A live video webcast of the presentation will be available via the Lancashire website www.lancashiregroup.com. The presentation can also be accessed for audio only by dialling +44(0)20 3427 1917 (UK participants), +1 646 254 3363 (US participants) both with the confirmation code 7518200.

A press release containing further details has been published and is available on the company's website at http://www.lancashiregroup.com/media/releases/2013/2013-10-10.aspx

For further information, please contact:


**Lancashire Holdings Limited**

Christopher Head +44 20 7264 4145
chris.head@lancashiregroup.com

Jonny Creagh-Coen +44 20 7264 4066
jcc@lancashiregroup.com

**Haggie Partners** +44 20 7562 4444
Peter Rigby (Peter Rigby mobile +44 7803851426)


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

**About Lancashire**

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

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

(1)Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited

(2) Long Term Issuer Rating applies to Lancashire Holdings Limited

Lancashire has capital in excess of $1 billion and its common shares trade on the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire, visit the Company's website at www.lancashiregroup.com

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

**NOTE REGARDING RPI METHODOLOGY**

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL METHODOLOGY THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI DOES NOT TAKE INTO ACCOUNT ANY BUSINESS OR CONTRACTS OF CATHEDRAL GROUP THE ACQUISITION OF WHICH IS SUBJECT TO COMPLETIONTAKING PLACE. 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 METHODOLOGY, 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.

**NOTE REGARDING FORWARD-LOOKING STATEMENTS:**

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELLED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "PROJECTS", "FORECASTS", "GUIDANCE", "INTENDS", "EXPECTS", "ESTIMATES", "PREDICTS", "MAY", "CAN", "WILL", "SEEKS", "SHOULD", OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP'S OR THE ENLARGED GROUP'S (I.E. THE GROUP, INCLUDING THE CATHEDRAL GROUP) THE FINANCIAL POSITION, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S OR THE ENLARGED GROUP'S INSURANCE BUSINESS) ARE FORWARD LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP OR THE ENLARGED GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE ENLARGED GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL, THE SUCCESSFUL RETENTION AND MOTIVATION OF THE ENLARGED GROUP'S KEY MANAGEMENT, THE INCREASED REGULATORY BURDEN FACING THE ENLARGED GROUP, THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR THE ENLARGED GROUP MAY WRITE; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN ITS TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE ENLARGED GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE ENLARGED GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; THE EFFECTIVENESS OF ITS LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; CYCLICAL DOWNTURNS OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS AND IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP OR THE ENLARGED GROUP CONDUCTS BUSINESS.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE 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 OR THE ENLARGED GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

## Consolidated statement of comprehensive income

(Unaudited)

| | Quarter 3 2013 $m | Quarter 3 2012 $m | YTD 2013 $m | YTD 2012 $m |
|---|---|---|---|---|
| Gross premiums written | 125.0 | 113.5 | 548.9 | 628.3 |
| Outwards reinsurance premiums | (3.4) | (3.7) | (119.6) | (152.9) |
| **Net premiums written** | **121.6** | **109.8** | **429.3** | **475.4** |
| Change in unearned premiums | 38.1 | 65.2 | (58.7) | (78.6) |
| Change in unearned premiums ceded | (25.7) | (31.2) | 23.9 | 38.7 |
| **Net premiums earned** | **134.0** | **143.8** | **394.5** | **435.5** |
| Net investment income | 6.1 | 7.4 | 18.7 | 24.5 |
| Net other investment income (losses) | (1.6) | 0.2 | 2.2 | 0.7 |
| Net realised gains (losses) and impairments | (3.0) | 3.8 | 9.1 | 8.7 |
| Share of profit (loss) of associates | 2.5 | 2.9 | 8.7 | 4.4 |
| Other income | 0.3 | - | 0.9 | - |
| Net foreign exchange (losses) gains | 17.6 | (0.3) | 21.2 | (0.7) |
| **Total net revenue** | **155.9** | **157.8** | **455.3** | **473.1** |
| Insurance losses and loss adjustment expenses | 76.1 | 14.0 | 181.8 | 178.8 |
| Insurance losses and loss adjustment expenses recoverable | (0.5) | 7.0 | (44.9) | (65.4) |
| Net insurance acquisition expenses | 29.8 | 28.3 | 87.5 | 90.3 |
| Equity based compensation | 4.6 | 6.6 | 11.8 | 12.5 |
| Other operating expenses | 16.3 | 21.0 | 50.6 | 62.5 |
| **Total expenses** | **126.3** | **76.9** | **286.8** | **278.7** |
| **Results of operating activities** | **29.6** | **80.9** | **168.5** | **194.4** |
| Financing costs | 3.9 | 2.9 | 5.6 | 9.3 |
| **Profit before tax** | **25.7** | **78.0** | **162.9** | **185.1** |
| Tax charge (credit) | 0.4 | (0.8) | 3.5 | 2.6 |
| **Profit after tax** | **25.3** | **78.8** | **159.4** | **182.5** |
| Non-controlling interest | 0.1 | - | 0.1 | - |
| **Profit after tax attributable to Lancashire** | **25.4** | **78.8** | **159.5** | **182.5** |
| Net change in unrealised gains/losses on investments | 7.0 | 10.5 | (30.4) | 22.2 |
| Tax recovery (expense) on net change in unrealised gains/losses on investments | (0.1) | (0.2) | 0.7 | (0.4) |
| **Other comprehensive income (loss)** | **6.9** | **10.3** | **(29.7)** | **21.8** |
| **Other comprehensive income attributable to Lancashire** | **32.3** | **89.1** | **129.8** | **204.3** |
| Net loss ratio | 56.4% | 14.6% | 34.7% | 26.0% |
| Net acquisition cost ratio | 22.2% | 19.7% | 22.2% | 20.7% |
| Administrative expense ratio | 12.2% | 14.6% | 12.8% | 14.4% |
| Combined ratio | 90.8% | 48.9% | 69.7% | 61.1% |
| Basic earnings per share | $0.15 | $0.49 | $0.96 | $1.15 |
| Diluted earnings per share | $0.13 | $0.42 | $0.86 | $1.00 |
| Change in fully converted book value per share | 7.4% | 5.7% | 14.7% | 13.2% |

## Consolidated balance sheet

| | Unaudited 30 Sept 2013 $m | Unaudited 30 Sept 2012 $m | Audited 31 Dec 2012 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 663.7 | 412.4 | 295.8 |
| Accrued interest receivable | 7.1 | 8.9 | 9.3 |
| Investments | | | |
| - Fixed income securities, available for sale | 1,605.4 | 1,824.0 | 1,874.5 |
| - Other investments | 3.9 | (0.2) | 0.1 |
| Reinsurance assets | | | |
| - Unearned premiums on premiums ceded | 35.4 | 47.5 | 11.5 |
| - Reinsurance recoveries | 67.6 | 101.3 | 73.0 |
| - Other receivables | 1.8 | 1.4 | 4.5 |
| Deferred acquisition costs | 74.7 | 78.2 | 68.0 |
| Other receivables | 46.7 | 3.9 | 2.7 |
| Inwards premiums receivable from insureds and cedants | 234.4 | 259.9 | 207.0 |
| Deferred tax asset | 5.5 | 7.8 | 7.3 |
| Corporation tax receivable | - | - | 0.4 |
| Investment in associates | 56.1 | 46.4 | 82.1 |
| Property, plant and equipment | 1.7 | 3.4 | 2.8 |
| **Total assets** | **2,804.0** | **2,794.9** | **2,639.0** |
| | | | |
| **Liabilities** | | | |
| Insurance contracts | | | |
| - Losses and loss adjustment expenses | 521.7 | 546.9 | 537.4 |
| - Unearned premiums | 402.0 | 425.7 | 343.3 |
| - Other payables | 18.3 | 26.6 | 23.5 |
| Amounts payable to reinsurers | 25.9 | 53.2 | 30.6 |
| Deferred acquisition costs ceded | 2.0 | 3.6 | 0.8 |
| Other payables | 82.0 | 93.8 | 49.3 |
| Corporation tax payable | 0.5 | 0.5 | - |
| Interest rate swap | 1.6 | 8.4 | 8.0 |
| Long-term debt | 259.5 | 127.9 | 258.7 |
| **Total liabilities** | **1,313.5** | **1,286.6** | **1,251.6** |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 92.7 | 84.3 | 84.3 |
| Own shares | (41.7) | (65.8) | (57.1) |
| Share premium | 192.2 | 2.4 | 2.4 |
| Contributed surplus | 649.0 | 659.1 | 654.4 |
| Accumulated other comprehensive income | 5.7 | 39.4 | 35.4 |
| Other reserves | 52.2 | 57.8 | 57.1 |
| Retained earnings | 539.3 | 731.1 | 610.9 |
| **Total shareholders' equity attributable to Lancashire** | **1,489.4** | **1,508.3** | **1,387.4** |
| | | | |
| Non-controlling interest | 1.1 | - | - |
| **Total liabilities and shareholders' equity** | **2,804.0** | **2,794.9** | **2,639.0** |

**Statement of consolidated cashflows**
(unaudited)

| | Unaudited Nine months 2013 $m | Unaudited Nine months 2012 $m | Audited Twelve months 2012 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | 162.9 | 185.1 | 236.8 |
| Tax paid | 0.4 | (1.2) | (1.2) |
| Depreciation | 1.1 | 2.1 | 2.8 |
| Interest expense on long-term debt | 9.4 | 4.2 | 7.2 |
| Interest and dividend income | (32.9) | (36.3) | (48.4) |
| Net amortisation of fixed income securities | 9.9 | 8.7 | 11.8 |
| Equity based compensation | 11.8 | 12.5 | 16.4 |
| Foreign exchange (gains) losses | (19.3) | (2.7) | (7.1) |
| Share of profit of associates | (8.7) | (4.4) | (7.7) |
| Net other investment (income) losses | (2.2) | (0.7) | (0.7) |
| Net realised (gains) losses and impairments | (9.1) | (8.7) | (11.8) |
| Net unrealised (gains) losses on interest rate swaps | (6.4) | 2.3 | 1.9 |
| Loss on disposal of intangible asset | - | 2.9 | 2.9 |
| Changes in operational assets and liabilities | | | |
| - Insurance and reinsurance contracts | (5.1) | (31.0) | (17.7) |
| - Other assets and liabilities | (1.2) | 53.1 | 8.1 |
| **Net cash flows from operating activities** | **110.6** | **185.9** | **193.3** |
| **Cash flows from (used in) investing activities** | | | |
| Interest, dividends and other income received | 36.2 | 37.4 | 49.1 |
| Net purchase of property, plant and equipment | - | (0.2) | (0.2) |
| Purchase and development of intangible asset | - | (1.7) | (1.7) |
| Investment in associates | 34.7 | 8.9 | (23.6) |
| Purchase of fixed income securities | (899.4) | (1,278.4) | (1,681.8) |
| Proceeds on maturity and disposal of fixed income securities | 1,131.7 | 1,192.8 | 1,541.4 |
| Net proceeds on other investments | 3.4 | (2.6) | (3.2) |
| **Net cash flows from (used in) investing activities** | **306.6** | **(43.8)** | **(120.0)** |
| **Cash flows used in financing activities** | | | |
| Interest paid | (11.1) | (4.2) | (5.5) |
| Issuance of long-term debt | - | - | 130.0 |
| Issuance of share capital | 198.2 | - | - |
| Dividends paid | (231.1) | (28.8) | (201.4) |
| Distributions by trust | (7.3) | (8.7) | (8.7) |
| Third party investment in non-controlling interest | 1.2 | - | - |
| **Net cash flows used in financing activities** | **(50.1)** | **(41.7)** | **(85.6)** |
| **Net increase (decrease) in cash and cash equivalents** | **367.1** | **100.4** | **(12.3)** |
| Cash and cash equivalents at beginning of period | 295.8 | 311.8 | 311.8 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 0.8 | 0.2 | (3.7) |
| **Cash and cash equivalents at end of period** | **663.7** | **412.4** | **295.8** |