

# LANCASHIRE HOLDINGS LIMITED

**GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR  
DIVIDENDS, OF 3.9% IN Q1 2014  
COMBINED RATIO OF 66.4% IN Q1 2014  
FULLY CONVERTED BOOK VALUE PER SHARE OF \$7.49 AT 31 MARCH 2014  
ENERGY AND TERRORISM LINES IN SYNDICATE 3010 RECEIVE LLOYD'S APPROVAL**

1 May 2014  
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the three month period ended 31 March 2014.

## Financial highlights

	As at 31 March 2014	As at 31 March 2013
<b>Fully converted book value per share</b>	<b>\$7.49</b>	<b>\$7.05</b>
<b>Return on equity* – Q1</b>	<b>3.9%</b>	<b>4.7%</b>
<b>Operating return on average equity – Q1</b>	<b>4.2%</b>	<b>4.7%</b>
<b>Final dividend per common share**</b>	<b>\$0.10</b>	<b>\$0.10</b>
<b>Special dividends per common share**</b>	<b>\$0.20</b>	<b>\$1.05</b>

\* 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 31 March 2014	Three months ended 31 March 2013
<b><i>Highlights (\$m)</i></b>		
Gross premiums written	316.7	214.9
Net premiums written	204.4	118.6
Profit before tax	57.4	78.9
Profit after tax***	60.1	77.9
Comprehensive income***	63.5	66.3
Net operating profit***	62.9	67.3
<b><i>Per share data</i></b>		
Diluted earnings per share	\$0.30	\$0.42
Diluted earnings per share – operating	\$0.31	\$0.36
<b><i>Financial ratios</i></b>		
Total investment return	0.3%	0.1%
Net loss ratio	34.1%	17.2%
Combined ratio	66.4%	51.2%
Accident year loss ratio	28.4%	29.7%

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

**Alex Maloney, Group Chief Executive Officer, commented:**

“The first quarter has been a busy one on many fronts. There has been the successful launch of the initial Kinesis product, the development and Lloyd’s approval of the business plan for the expansion of Cathedral’s Syndicate 3010 and the realignment of the Lancashire Companies’ catastrophe exposures into the property catastrophe excess of loss line. Thanks to our strong value-added proposition with our brokers and clients as a leader for much of our business, we have been able to protect the core business lines at Lancashire Companies and Cathedral from the weakening rate environment. We have maintained our position and in spite of the pressure on signings, we continue to see strong submission levels for both new and renewal business. For our finance and actuarial teams it has also been busy as the Lancashire Companies and Cathedral work together to harmonise reporting and align practice across the Group. Operations and IT have also been working hard during the transition, particularly with preparations for the move to a new building, which will bring all the London operations of the Group under one roof later in the year.

This is my first opportunity to report to you as the CEO of the business after over eight years in underwriting roles for Lancashire. It is a tribute to Richard that my transition into this role has been so smooth. The DNA of Lancashire – the commitment to underwriting as the core of our profitability and the commitment to capital management as the core of our discipline – is deeply embedded across the whole group and will not change. We are thankful to Richard for all that he has done to build a strong management team across the Group. I am therefore confident that we are well placed for the next chapters in the Lancashire story, and that we can continue to serve our clients, brokers and shareholders as we have since our inception.”

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

“While we experienced some adverse development on the 2013 accident year due to a late reported energy claim, there were no major losses in the first quarter and the Group produced a RoE of 3.9% with a combined ratio of 66.4%. RoE for the Lancashire Companies was 3.5%, with Cathedral adding 0.5% and acquisition adjustments now only detracting by 0.1%.

Our January and April renewals went well and were in line with expectations. We will continue to monitor market developments over the rest of the year but, with no indication of any change in trading conditions, it is likely that we will return a substantial portion of our earnings later in the year. Should conditions change we will clearly put any excess capital to work. While we do not currently anticipate any need to raise additional capital we are ready to do so if the circumstances merit. I would therefore like to thank our shareholders for their continued support and understanding of our capital management approach with their approval of the authority to allot and issue up to 15% of our share capital on a non-pre-emptive basis at yesterday’s AGM.”

## Lancashire Companies' Renewal Price Index for major classes

The Lancashire Companies' 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 the Lancashire Companies' 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 and only covers business written by the Lancashire Companies to offer a consistent basis for analysis and therefore does not include Cathedral's Lloyd's business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2013:

Class	Q1 2014
Aviation (AV52)	87%
Gulf of Mexico energy	97%
Energy offshore worldwide	95%
Marine	105%
Property retrocession and reinsurance	89%
Terrorism	93%
<b>Combined</b>	<b>95%</b>

## Underwriting results

### Gross premiums written

	Q1 2014 \$m	Q1 2013 \$m	Change \$m	Change %
Property	117.5	132.0	(14.5)	(11.0)
Energy	49.9	45.5	4.4	9.7
Marine	26.7	29.6	(2.9)	(9.8)
Aviation	14.4	7.8	6.6	84.6
Lloyd's	108.2	-	108.2	n/a
<b>Total</b>	<b>316.7</b>	<b>214.9</b>	<b>101.8</b>	<b>47.4</b>

Gross premiums written increased by 47.4% in the first quarter of 2014 compared to the same period in 2013, with the increase in premiums due primarily to consolidation of the new Lloyd's segment, following the acquisition of Cathedral in the fourth quarter of 2013. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 11.0% for the first quarter of 2014 compared to the same period in 2013. The decrease is driven primarily by reductions in the property retrocession book, offset in part by our continued expansion of our property catastrophe excess of loss book. With reinsurance pricing in general under pressure, as property retrocession rates, terms and conditions continued to worsen rapidly, we redeployed capital to property catastrophe excess of loss, adding some new business and restructuring some existing programmes for core clients, including writing some business on a multi-year basis. Other property classes saw relatively consistent premium volumes compared to the same period of 2013.

Energy gross premiums written increased by 9.7% for the first quarter of 2014 compared to the same period in 2013. The first quarter is not typically a major renewal period for the energy book and, with the

exception of more new business in our relatively new energy liabilities sub-class, premium volumes were relatively consistent across all energy classes compared to the same period of 2013.

Marine gross premiums written decreased by 9.8% for the first quarter of 2014 compared to the same period in 2013. The first quarter is not a major renewal period for the marine segment and the dollar value of the reduction in premiums is minimal.

Aviation gross premiums written increased by 84.6% for the first quarter of 2014 compared to the same period in 2013. While the first quarter is not a major renewal period for the AV52 book, pricing and renewal rates remain under pressure. The increase in AV52 premiums written compared to the first quarter of 2013 is driven by adjustments to prior year contracts. The increase in aviation satellite is mainly due to further new satellite business in the quarter as we continue to grow that line of business, plus additional satellite launches on contracts written in previous years. The satellite book premium flow tends to be more unpredictable than other classes of business given the irregular launch patterns.

The first quarter of 2014 reflects the first full quarter of gross premiums written attributable to the Lloyd's segment since the Cathedral acquisition in the fourth quarter of 2013. The Lloyd's segment gross premiums written in the first quarter were \$108.2 million, \$18.6 million or 14.7% lower than the corresponding quarter of 2013 (prior to the acquisition). The decrease largely reflects rate reductions, particularly in the property reinsurance sub-class, and the non-renewal of an aviation quota share where rates were no longer acceptable. These reductions were offset in part by continued strong rating in the direct and facultative binder portfolio.

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Ceded reinsurance premiums increased by \$16.0 million, or 16.6% for the first quarter of 2014 compared to the same period in 2013. In the first quarter of 2013 \$52.6 million of premiums were ceded to the Accordion sidecar. The Accordion facility is now in run-off and no business was ceded to the vehicle in the first quarter of 2014. This reduction was offset largely by \$40.7 million of ceded premiums in relation to the Lloyd's segment, which is \$6.7 million lower than the corresponding quarter of 2013 (prior to the acquisition). The competitive rate environment enabled Cathedral to purchase similar levels of core cover, plus some additional cover for a reduction in cost compared to 2013. Lancashire also took advantage of lower reinsurance rates to purchase some new non-marine retrocession aggregate cover and to restructure its marine, energy and terror programmes with increased limits ceded.

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Net premiums earned as a proportion of net premiums written were 85.6% in the first quarter of 2014 compared to 112.8% for the same period in 2013. The decrease for 2014 reflects the impact of the new Lloyd's segment, where a larger proportion of the book renews in the first quarter of the year on an annual basis compared to the Lancashire Companies' book. The first quarter of 2013 also benefited from higher earnings from prior year deals than the first quarter of 2014, reflecting higher overall premiums written in 2012 than 2013.

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The Group's net loss ratio for the first quarter of 2014 was 34.1% compared to 17.2% for the same period in 2013. There were no significant losses in the first quarter of 2014 and attritional losses reported were also relatively low, although one 2013 accident year mid-sized energy claim was reported in the quarter. The first quarter of 2013 included the benefit of the settlement reached for our North East Industry Loss Warranty ('ILW').

Prior year adverse development for the first quarter, including the energy claim mentioned above, was \$10.1 million, compared to favourable development of \$16.9 million for the first quarter of 2013. The first quarter of 2013 experienced releases due to lower than expected reported losses plus the benefit of the ILW settlement.

The following table shows the impact of prior year development on the Group's loss ratio:

	Q1 2014		Q1 2013	
	Losses \$m	Loss Ratio %	Losses \$m	Loss Ratio %
At 31 March	59.7	34.1	23.0	17.2
Absent prior year development	49.6	28.4	39.9	29.8
<b>Adjusted losses and ratio</b>	<b>49.6</b>	<b>28.4</b>	<b>39.9</b>	<b>29.8</b>

Note: Adjusted loss ratio excludes prior year development.

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

	Q1 2014 \$m	Q1 2013 \$m
Property	1.3	13.5
Energy	(9.8)	1.9
Marine	0.8	3.0
Aviation	0.3	(1.5)
Lloyd's	(2.7)	-
<b>Total</b>	<b>(10.1)</b>	<b>16.9</b>

Note: Positive numbers denote favourable development.

The accident year loss ratio for the first quarter of 2014, including the impact of foreign exchange revaluations, was 28.4% compared to 29.7% for the same period in 2013. Neither period included any significant accident year losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2014 and 2013:

	Q1 2014 \$m	Q1 2013 \$m
2006 accident year	0.2	(1.3)
2007 accident year	(0.1)	(0.2)
2008 accident year	0.1	(2.2)
2009 accident year	1.5	0.5
2010 accident year	1.2	1.8
2011 accident year	0.2	(8.1)
2012 accident year	7.4	26.4
2013 accident year	(20.6)	-
<b>Total</b>	<b>(10.1)</b>	<b>16.9</b>

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 32.7% at 31 March 2014 compared to 30.7% at 31 March 2013.

## Investments

Net investment income was \$7.1 million for the first quarter of 2014, an increase of 16.4% from the first quarter of 2013. While book yields are lower than the first quarter of 2013, net investment income increased due to the increased size of the fixed income portfolio resulting from the acquisition of Cathedral. Total investment return, including net investment income, net other investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was \$7.9 million for the first quarter of 2014 compared to \$1.8 million for the first quarter of 2013. Short maturity yields finished the quarter broadly in line with year-end levels, while credit spreads narrowed somewhat leading to positive returns in the Group's fixed income portfolios. In the corresponding period of 2013, while a positive return was generated, investment returns were negatively impacted by widening emerging market debt credit spreads.

Currently 0.9% of the portfolio is allocated to emerging market debt with an overall average credit quality of A-. The corporate bond allocation represented 26.9% of managed invested assets at 31 March 2014 compared to 29.7% at 31 March 2013. At 31 March 2014 the Group's allocation to bank loans represented 5.6% of the portfolio. The allocation to bank loans and our tail risk hedge, plus a 2.8% allocation made to a diversified portfolio of low volatility hedge funds in April of this year, are part of our interest rate risk management strategy to protect the investment portfolio from a significant increase in interest rates.

The managed portfolio was as follows:

	<b>As at 31 March 2014</b>	<b>As at 31 March 2013</b>
Fixed income securities	80.7%	79.1%
Cash and cash equivalents	18.5%	20.9%
Equity securities	0.6%	-
Other investments	0.2%	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Key investment portfolio statistics are:

	<b>As at 31 March 2014</b>	<b>As at 31 March 2013</b>
Duration	1.0 year	1.3 years
Credit quality	AA-	AA-
Book yield	1.2%	1.6%
Market yield	1.1%	1.1%

## Third party capital

During the first quarter of 2014 profit commission of \$6.7 million was received following a commutation of our quota share agreement with Accordion. No further property retrocession business will be ceded to the Accordion facility, which is now in run-off. The profit commission was recorded in net insurance acquisition expenses. The Saltire facility ran loss free in 2013 and Lancashire therefore received a payment of \$3.0 million of profit commission in the first quarter of 2014. The payment was recognised in other income. The remaining other income recorded in the quarter reflects the underwriting fee of \$0.6 million that Kinesis Capital Management earned for providing underwriting services to the Kinesis vehicle, and \$0.4 million of managing agency fees relating to the Lloyd's segment.

The \$1.6 million share of profit of associates for the first quarter of 2014 reflects Lancashire's 10% equity interest in the Kinesis vehicle and remaining 20% equity interest in the Accordion vehicle, following the commutation. The share of profit of associates was \$2.9 million for the first quarter of 2013 and related to the Accordion and Saltire vehicles.

### Other operating expenses

Operating expenses consist of the following items:

	Q1 2014 \$m	Q1 2013 \$m
Employee salaries and benefits	10.0	9.1
Payroll taxes and national insurance on equity compensation	(2.4)	0.8
Other operating expenses	12.9	7.1
<b>Total Lancashire, excluding Lloyd's segment</b>	<b>20.5</b>	<b>17.0</b>
Lloyd's segment	6.5	-
<b>Total</b>	<b>27.0</b>	<b>17.0</b>

Employee remuneration costs were marginally higher in the first quarter of 2014 compared to the same period in the prior year due to a slight increase in headcount. The first quarter of 2014 also included a reversal of employee national insurance accruals in relation to equity compensation exercises driven by both the timing of exercises and fluctuations in the share price. Other operating expenses for the first quarter of 2014 included \$4.4 million relating to the amortisation of intangible assets arising on the acquisition of Cathedral in the fourth quarter of 2013.

The Lloyd's segment includes \$3.9 million of employee remuneration costs and \$2.6 million of other operating expenses. The employee remuneration costs and other operating expenses for the corresponding quarter of 2013 (prior to the Lancashire acquisition) were \$7.6 million and \$2.8 million respectively. 2013 employee remuneration costs were higher due to performance related pay provisions, which are accrued on a results basis.

Equity based compensation was \$2.4 million in the first quarter of 2014 compared to \$3.5 million in the same period last year. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations.

### Capital

At 31 March 2014, total capital available to Lancashire was \$1.791 billion, comprising shareholders' equity of \$1.459 billion and \$332.2 million of long-term debt. Tangible capital was \$1.626 billion. Leverage was 18.6% on total capital and 20.4% on total tangible capital. Total capital and total tangible capital at 31 March 2013 was \$1.494 billion.

### Dividends

During the first quarter of 2014, the Lancashire Board of Directors declared a final dividend in respect of 2013 of \$0.10 (£0.06) per common share and an additional special dividend for 2013 of \$0.20 (£0.12) per common share. The dividends and dividend equivalent payments, totaling \$63.2 million, were paid on 16 April 2014 to shareholders and warrant holders of record on 21 March 2014.

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: In this release the term “Cathedral” means Cathedral Capital Limited (a wholly owned subsidiary of Lancashire) and its subsidiaries and the term “Lancashire Companies” means the subsidiaries of Lancashire excluding Cathedral.**

## **Financial information**

**Further details of our 2014 first quarter results can be obtained from our Financial Supplement. This can be accessed via our website [www.lancashiregroup.com](http://www.lancashiregroup.com).**

## **Analyst and Investor Earnings Conference Call**

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00am EDT on Thursday, 1 May 2014. 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 14450473#. The call can also be accessed via webcast, please go to our website ([www.lancashiregroup.com](http://www.lancashiregroup.com)) to access.

A replay facility will be available until Friday, 30 May 2014. 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 647051#. The replay facility will also be accessible at [www.lancashiregroup.com](http://www.lancashiregroup.com)

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## **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:

	<b>Financial Strength Rating <sup>(1)</sup></b>	<b>Financial Strength Outlook <sup>(1)</sup></b>	<b>Long Term Issuer Rating <sup>(2)</sup></b>
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

NB: Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); Standard & Poor's: A+ (Strong); and Fitch: A+ (Strong).



Lancashire has capital in excess of \$1.5 billion and its common shares trade on the premium segment of 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](http://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.

Kinesis Capital Management Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Cathedral Underwriting Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

For more information on Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), visit Cathedral's website at [www.cathedralcapital.com](http://www.cathedralcapital.com)

#### **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 THE CATHEDRAL GROUP. 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 MODELED 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 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 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 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 GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL, THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT, THE INCREASED REGULATORY BURDEN FACING THE GROUP, THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR 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 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 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 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 CONDUCTS BUSINESS; ANY OF LANCASHIRE'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE NEW UK CFC REGIME; AND ANY CHANGE IN THE UK GOVERNMENT OR UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME .

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 FORWARDLOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

**Consolidated statement of comprehensive income**  
(Unaudited)

	Quarter 1 2014 \$m	Quarter 1 2013 \$m
Gross premiums written	316.7	214.9
Outwards reinsurance premiums	(112.3)	(96.3)
<b>Net premiums written</b>	<b>204.4</b>	<b>118.6</b>
Change in unearned premiums	(103.2)	(47.4)
Change in unearned premiums on premiums ceded	73.7	62.6
<b>Net premiums earned</b>	<b>174.9</b>	<b>133.8</b>
Net investment income	7.1	6.1
Net other investment income (losses)	0.3	(0.6)
Net realised gains (losses) and impairments	(2.9)	7.9
Share of profit of associates	1.6	2.9
Other income	4.0	0.3
Net foreign exchange (losses) gains	(2.5)	3.7
<b>Total net revenue</b>	<b>182.5</b>	<b>154.1</b>
Insurance losses and loss adjustment expenses	68.0	39.2
Insurance losses and loss adjustment expenses recoverable	(8.3)	(16.2)
Net insurance acquisition expenses	29.6	28.5
Other operating expenses	27.0	17.0
Equity based compensation	2.4	3.5
<b>Total expenses</b>	<b>118.7</b>	<b>72.0</b>
<b>Results of operating activities</b>	<b>63.8</b>	<b>82.1</b>
Financing costs	6.4	3.2
<b>Profit before tax</b>	<b>57.4</b>	<b>78.9</b>
Tax (credit) charge	(2.6)	1.0
<b>Profit after tax</b>	<b>60.0</b>	<b>77.9</b>
Non-controlling interest	0.1	-
<b>Profit after tax attributable to Lancashire</b>	<b>60.1</b>	<b>77.9</b>
Net change in unrealised gains/losses on investments	3.4	(12.0)
Tax recovery on net change in unrealised gains/losses on investments	-	0.4
<b>Other comprehensive income (loss)</b>	<b>3.4</b>	<b>(11.6)</b>
<b>Total comprehensive income attributable to equity shareholders</b>	<b>63.5</b>	<b>66.3</b>
Net loss ratio	34.1%	17.2%
Net acquisition cost ratio	16.9%	21.3%
Administrative expense ratio	15.4%	12.7%
Combined ratio	66.4%	51.2%
Basic earnings per share	\$0.33	\$0.48
Diluted earnings per share	\$0.30	\$0.42
Change in fully converted book value per share	3.9%	4.7%

## Consolidated balance sheet

(Unaudited)

	31 Mar 2014 \$m	31 Mar 2013 \$m
<b>Assets</b>		
Cash and cash equivalents	532.4	507.6
Accrued interest receivable	8.0	8.5
Investments		
- Fixed income securities, available for sale	1,917.5	1,689.0
- Fixed income securities, at fair value through profit or loss	30.1	-
- Equity securities, available for sale	15.4	-
- Other investments	4.3	0.8
Reinsurance assets		
- Unearned premiums on premiums ceded	88.6	74.1
- Reinsurance recoveries	140.5	77.6
- Other receivables	19.6	4.6
Deferred acquisition costs	96.9	75.5
Other receivables	18.4	15.4
Inwards premiums receivable from insureds and cedants	384.8	270.8
Corporation tax receivable	5.7	-
Deferred tax asset	-	7.7
Investment in associates	23.6	55.3
Property, plant and equipment	2.7	2.4
Intangible assets	164.8	-
<b>Total assets</b>	<b>3,453.3</b>	<b>2,789.3</b>
<b>Liabilities</b>		
Insurance contracts		
- Losses and loss adjustment expenses	824.6	500.3
- Unearned premiums	545.3	390.7
- Other payables	29.0	35.8
Amounts payable to reinsurers	78.9	74.3
Deferred acquisition costs ceded	0.8	6.1
Other payables	142.3	281.0
Corporation tax payable	-	0.4
Deferred tax liability	39.2	-
Interest rate swap	1.9	7.2
Long-term debt	332.2	257.8
<b>Total liabilities</b>	<b>1,994.2</b>	<b>1,553.6</b>
<b>Shareholders' equity</b>		
Share capital	92.7	84.3
Own shares	(34.4)	(62.7)
Share premium	192.2	2.4
Contributed surplus	647.7	662.9
Accumulated other comprehensive income	6.3	23.8
Other reserves	49.3	56.8
Retained earnings	504.7	468.2
<b>Total shareholders' equity attributable to Lancashire</b>	<b>1,458.5</b>	<b>1,235.7</b>
Non-controlling interest	0.6	-
<b>Total liabilities and shareholders' equity</b>	<b>3,453.3</b>	<b>2,789.3</b>

Basic book value per share	\$8.02	\$7.63
Fully converted book value per share	\$7.49	\$7.05

**Statement of consolidated cashflows**  
(Unaudited)

	Quarter 1 2014 \$m	Quarter 1 2013 \$m
<b>Cash flows from operating activities</b>		
Profit before tax attributable to Lancashire	57.5	78.9
Tax paid	-	0.4
Depreciation	0.3	0.4
Amortisation of intangible asset	12.4	-
Interest expense on long-term debt	3.9	3.1
Interest and dividend income	(11.3)	(11.8)
Net amortisation of fixed income securities	3.0	3.5
Equity based compensation	2.4	3.5
Foreign exchange losses (gains)	7.1	(2.9)
Share of profit of associates	(1.6)	(2.9)
Net other investment (gains) losses	(0.3)	0.6
Net realised (gains) losses and impairments	2.9	(7.9)
Net unrealised losses (gains) on interest rate swaps	1.7	(0.8)
Changes in operational assets and liabilities		
-insurance and reinsurance contracts	(42.2)	(57.2)
-other assets and liabilities	(6.5)	0.1
<b>Net cash flows from operating activities</b>	<b>29.3</b>	<b>7.0</b>
<b>Cash flows from investing activities</b>		
Interest and dividends received	12.2	12.7
Service fee and other income	5.6	1.2
Purchase and development of intangible asset	(0.2)	-
Investment in associates	42.7	29.8
Purchase of fixed income securities	(511.2)	(350.9)
Proceeds on maturity and disposal of fixed income securities	559.6	527.1
Purchase of equity securities	(0.7)	-
Proceeds on disposal of equity securities	0.8	-
Net settlement of other investments	(2.8)	0.4
<b>Net cash flows from investing activities</b>	<b>106.0</b>	<b>220.3</b>
<b>Cash flows used in financing activities</b>		
Interest paid	(5.7)	(4.8)
Distributions by trust	(2.2)	(1.4)
<b>Net cash flows used in financing activities</b>	<b>(7.9)</b>	<b>(6.2)</b>
<b>Net increase in cash and cash equivalents</b>	<b>127.4</b>	<b>221.1</b>
Cash and cash equivalents at beginning of period	403.0	295.8
Effect of exchange rate fluctuations on cash and cash equivalents	2.0	(9.3)
<b>Cash and cash equivalents at end of period</b>	<b>532.4</b>	<b>507.6</b>