

LANCASHIRE HOLDINGS LIMITED

**GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR
DIVIDENDS, OF 1.6% IN Q3 2014, 8.1% YEAR TO DATE
COMBINED RATIO OF 82.4% IN Q3 2014, 74.5% YEAR TO DATE
SPECIAL DIVIDEND OF \$1.20 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF \$7.74 AT 30 SEPTEMBER 2014**

05 November 2014

London, UK

Lancashire Holdings Limited (“Lancashire” or “the Group”) today announces its results for the third quarter of 2014 and the nine month period ended 30 September 2014.

Financial highlights

	As at 30 September 2014	As at 30 September 2013
Fully converted book value per share	\$7.74	\$7.67
Return on equity* – Q3	1.6%	7.4%
Return on equity* – YTD	8.1%	14.7%
Operating return on average equity – Q3	2.4%	0.8%
Operating return on average equity – YTD	9.3%	9.2%
Special dividends per common share**	\$1.20	\$0.45

* 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		Nine months ended	
	30 Sept 2014	30 Sept 2013	30 Sept 2014	30 Sept 2013
Highlights (\$m)				
Gross premiums written	152.1	125.0	787.2	548.9
Net premiums written	137.6	121.6	632.5	429.3
Profit before tax	36.1	25.7	135.0	162.9
Profit after tax***	37.6	25.4	142.5	159.5
Comprehensive income****	28.6	32.3	143.7	129.8
Net operating profit****	36.2	11.2	142.5	132.7
Per share data				
Diluted earnings per share	\$0.19	\$0.13	\$0.72	\$0.86
Diluted earnings per share – operating	\$0.18	\$0.06	\$0.72	\$0.71
Financial ratios				
Total investment return****	–	0.4%	0.8%	–
Net loss ratio	44.8%	56.4%	37.9%	34.7%
Combined ratio	82.4%	90.8%	74.5%	69.7%
Accident year loss ratio	50.1%	57.4%	39.4%	36.8%

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

**** Net return on investments includes internal FX hedges

Alex Maloney, Group Chief Executive Officer, commented:

“2014 has been a challenging year for the specialty insurance market as we are firmly in the soft phase of the underwriting cycle. But managing the cycle is one of the key skills of the Lancashire Group of companies. The market is probably the toughest it has been in Lancashire’s history, but we have the right people, the right strategy and the right platforms to manage the cycle. As a long-standing leader in the specialty insurance and reinsurance lines, the silver lining of the highly competitive market is the ability for Lancashire to maintain its core inwards portfolio while managing net exposures through greatly improved pricing, terms and conditions on the outward placements. Lancashire has always said that we focus on the risk-adjusted return, and our net risk for both catastrophe and non-catastrophe exposures is now at an historically low level.

The quarter has had some losses with a combined ratio of 82.4%, but overall the year to date combined ratio of 74.5% is a very strong result. Given the nature of the Lancashire portfolio, individual quarters can fluctuate on the basis of events that are not truly significant on an annual view. The key is that Lancashire, Cathedral and Kinesis are continuing to manage the soft cycle phase with excellent combined ratios, which we believe are the strongest correlator to increasing book value per share over time factoring in our dividend. We continue to focus our resources on our underwriting and the addition of the new Cathedral Aviation teams demonstrates our commitment to making sure we have the best people and platforms for our business.

The market is not without challenges, but the Lancashire business model was always designed in the knowledge that we have to cater for all phases of the cycle. The work we have done over the last couple of years in widening the base of our income, and adding to our underwriting resources, reinforces our ability to trade successfully through all conditions. We are continuing to match our capital to the available opportunity and the current repurchase of our shares, as well as the announcement of our special dividend, are a continuing demonstration of the active management of our business throughout the cycle.”

Elaine Whelan, Group Chief Financial Officer, commented:

“Performance for the quarter was fairly average, with an RoE of 1.6%, bringing us to 8.1% for the year. While the US wind season was quiet, we experienced a higher number of attritional risk losses in the quarter. With a combination of concerns around Federal Reserve actions and geopolitical fears, treasury yields rose and credit spreads widened. That, along with currency depreciation against the dollar, led to a small loss on our investment portfolio. With currency hedging in place, underlying portfolio performance was flat.

With no meaningful change in our outlook for the coming renewal season, we don’t need as much capital as we are currently carrying. The announcement of our special dividend and dividend equivalent payments of approximately \$250 million brings our total capital return since inception to just under \$2.2 billion, or 99.5% of total comprehensive income since inception. The special dividend represents a return of 173.3% of comprehensive income for the year to date.”

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	YTD 2014	Q3 2014	Q2 2014	Q1 2014
Aviation (AV52)	89%	94%	90%	87%
Gulf of Mexico energy	92%	n/a*	91%	97%
Energy offshore worldwide	95%	103%	91%	95%
Marine	103%	97%	102%	105%
Property retrocession and reinsurance	87%	83%	83%	89%
Terrorism	93%	94%	94%	93%
Combined	94%	96%	92%	95%

* There was no renewing Gulf of Mexico energy business written in Q3 2014.

Underwriting results

Gross premiums written

	Q3				YTD			
	2014	2013	Change	Change	2014	2013	Change	Change
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Property	50.9	71.9	(21.0)	(29.2)	238.3	290.7	(52.4)	(18.0)
Energy	31.4	32.8	(1.4)	(4.3)	208.6	175.9	32.7	18.6
Marine	10.9	10.1	0.8	7.9	59.5	52.4	7.1	13.5
Aviation	8.6	10.2	(1.6)	(15.7)	40.3	29.9	10.4	34.8
Lloyd's	50.3	–	50.3	–	240.5	–	240.5	–
Total	152.1	125.0	27.1	21.7	787.2	548.9	238.3	43.4

Gross premiums written increased by 21.7% in the third quarter of 2014 compared to the same period in 2013. In 2014 to date, gross premiums written increased by 43.4% compared to the first nine months of 2013. The increase in premiums is derived primarily from 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 29.2% for the third quarter of 2014 compared to the same period in 2013 and decreased by 18.0% in the first nine months of 2014 compared to the first nine months of 2013. The decrease in the quarter is largely due to non-renewals in the property catastrophe and political risk books. In the property catastrophe class some multi-year deals written in the third quarter of 2013 were not up for renewal yet. Other contracts were non-renewed due to worsening terms and conditions. The political and sovereign risk classes tend to have less renewal business as policies often relate to specific one-off projects. The non-renewal of long term deals written in the political and sovereign risk classes in the third quarter of 2013 was offset to an extent by new business in these classes. For the year to date the decrease is driven primarily by reductions in the property retrocession book at the 01 January 2014 renewals, offset in part by the expansion of our property catastrophe excess of loss book.

As property retrocession rates, terms and conditions continued to worsen, we redeployed capital to property catastrophe excess of loss, adding some new business and restructuring some existing programs for core clients, including writing some business on a multi-year basis.

Energy gross premiums written decreased by 4.3% for the third quarter of 2014 compared to the same period in 2013 and increased by 18.6% in the first nine months of 2014 compared to the first nine months of 2013. The third quarter of 2014 included the cancellation of a large multi-year contract in the Gulf of Mexico class plus some non-renewals of long term contracts in the energy construction class. These reductions were almost entirely offset by increases in the worldwide offshore energy book, largely due to non-annual contracts renewing. The increase for the year to date is driven primarily by the Gulf of Mexico book where a number of both new and renewing deals were written on a multi-year basis. Volumes across other energy lines are fairly flat on a year to date basis.

Marine gross premiums written increased by 7.9% for the third quarter of 2014 compared to the same period in 2013 and increased by 13.5% in the first nine months of 2014 compared to the first nine months of 2013. The dollar value of the increase in premiums quarter on quarter is minimal. The increase for year to date is largely due to non-annual contract renewals in the marine hull subclass in the second quarter of 2014.

Aviation gross premiums written decreased by 15.7% for the third quarter of 2014 compared to the same period in 2013 and increased by 34.8% in the first nine months of 2014 compared to the first nine months of 2013. The decrease in the third quarter of 2014 compared to the same period in 2013 is due to the timing of satellite launches. The increase in aviation satellite for the first nine months of 2014 compared to the same periods in 2013 is mainly due to further new satellite business plus additional satellite launches on contracts written in previous years. The small increase in AV52 premiums written in the first nine months of 2014 compared to the first nine months of 2013 is driven by adjustments to prior year contracts in addition to an increase in exposures.

The third quarter of 2014 reflects the third 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 third quarter were \$50.3 million, \$1.3 million or 2.5% lower than the corresponding quarter of 2013 (prior to the acquisition) and \$240.5 million for the nine months to 30 September 2014, \$13.5 million or 5.3% lower than the corresponding period in 2013. For both the quarter and year to date, while there have been decreases across the existing book of business due to declining rates, these have been offset by the new energy, terror and aviation classes of business being written by Syndicate 3010.

Ceded reinsurance premiums increased by \$11.1 million, or 326.5%, for the quarter and increased by \$35.1 million, or 29.3%, for the nine month period to 30 September 2014, in each case compared to the same periods in 2013. The increase in the third quarter of 2014 compared to the third quarter of 2013 is predominately due to the new Lloyd's segment. In the nine month period to 30 September 2013, \$47.7 million of premiums were ceded to the Accordion sidecar. The Accordion quota share contract was commuted in the first quarter of 2014 and no further premiums have been ceded to the facility this year. This reduction was more than offset by \$61.1 million of ceded premiums in relation to the Lloyd's segment. Lancashire also took advantage of lower reinsurance rates to purchase some new non-marine retrocession aggregate cover and to restructure and increase limits for the marine, energy and terror programmes.

Net premiums earned as a proportion of net premiums written were 130.5% in the third quarter of 2014 compared to 110.2% for the same period in 2013 and 85.5% in the nine months to 30 September 2014, compared to 91.9% in the same period in 2013. The increase for the quarter to date compared to the same period in 2013 is largely due to the new Lloyd's book where the majority of business is written in the first half of the year; earnings are therefore typically higher during the third quarter. The decreased percentage in premiums earned for the year to date compared to the same period in 2013 reflects the impact of increased multi-year premiums written in the property catastrophe and energy Gulf of Mexico classes in 2014.

The Group's net loss ratio for the third quarter of 2014 was 44.8% compared to 56.4% for the same period in 2013 and 37.9% for the nine month period to 30 September 2014 compared to 34.7% for the same period in 2013. While there were no significant losses in the third quarter or the first nine months of 2014, we experienced higher attritional losses in both our aviation and Lloyd's segments. Other lines had relatively low reported losses, although there was some negative development on prior accident year mid-sized marine and energy claims in the first nine months of 2014. For the first nine months of 2013 attritional losses were exceptionally low and the first quarter of 2013 included the benefit of the settlement reached for our North East Industry Loss Warranty ("ILW").

Prior year favourable development for the third quarter of 2014 was \$11.3 million, compared to \$0.4 million for the third quarter of 2013. Favourable development was \$9.4 million for the nine months to 30 September 2014, compared to favourable development of \$7.7 million for the same period in 2013, which included the ILW settlement mentioned above.

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

	Q3 2014		YTD 2014	
	Losses \$m	Loss Ratio %	Losses \$m	Loss Ratio %
At 30 September	80.5	44.8	205.2	37.9
Absent prior year development	91.8	51.1	214.6	39.7
Adjusted losses and ratio	91.8	51.1	214.6	39.7

Note: Adjusted loss ratio excludes prior year development.

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

	Q3		YTD	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Property	1.2	(0.4)	18.5	12.4
Energy	5.6	(0.2)	(2.2)	21.3
Marine	3.3	1.0	(11.9)	(24.6)
Aviation	0.5	–	0.5	(1.4)
Lloyd's	0.7	–	4.5	–
Total	11.3	0.4	9.4	7.7

Note: Positive numbers denote favourable development.

The accident year loss ratio for the third quarter of 2014, including the impact of foreign exchange revaluations, was 50.1% compared to 57.4% for the same period in 2013. The year to date accident year loss ratio was 39.4% compared to 36.8% for the nine months to 30 September 2013. The 2014 accident year loss ratio for the quarter and nine months ended 30 September 2014 did not include any significant large losses. The corresponding periods of 2013 also included low levels of current accident year losses.

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

	Nine months ended 30 Sept 2014	Nine months ended 30 Sept 2013
	\$m	\$m
2006 accident year	0.4	(1.1)
2007 accident year	(0.3)	(1.0)
2008 accident year	2.3	(6.6)
2009 accident year	3.6	2.1
2010 accident year	5.6	1.1
2011 accident year	(5.8)	4.4
2012 accident year	4.2	8.8
2013 accident year	(0.6)	–
Total	9.4	7.7

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 29.9% at 30 September 2014 compared to 31.5% at 30 September 2013.

Investments

Net investment income was \$6.7 million for the third quarter of 2014, an increase of 9.8% from the third quarter of 2013. Net investment income was \$21.4 million for the nine months ended 30 September 2014, an increase of 14.4% compared to the same period in 2013. The increase for both the quarter and year to date compared to the same periods of 2013 is mainly due to the increased size of the investment 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 a loss of \$1.8 million for the third quarter of 2014 compared to a gain of \$8.4 million for the third quarter of 2013, and was a gain of \$18.3 million for the nine months ended 30 September 2014 compared to \$0.3 million for the same period in 2013. Increasing treasury yields combined with widening credit spreads led to negative returns in the Group's fixed income portfolio for the quarter. This partly reduced gains from the first half of 2014 from decreasing treasury yields and narrowing credit spreads. In the corresponding period of 2013, strong returns in our bank loan and emerging market debt portfolios in the third quarter offset the losses of the first half of 2013 with resulting portfolio performance flat for the year to date.

The corporate bond allocation represents 29.1% of managed invested assets at 30 September 2014 compared to 26.0% at 30 September 2013. At 30 September 2014 the Group's allocation to bank loans represents 5.6% of the portfolio compared to 3.5% at 30 September 2013. The Group's portfolio also includes a 4.0% allocation to a diversified portfolio of low volatility hedge funds.

The managed portfolio was as follows:

	As at 30 Sept 2014	As at 31 Dec 2013	As at 30 Sept 2013
Fixed income securities	83.6%	84.4%	73.0%
Cash and cash equivalents	11.6%	14.7%	26.8%
Equity securities	0.7%	0.7%	–
Hedge funds	4.0%	–	–
Other investments	0.1%	0.2%	0.2%
Total	100.0%	100.0%	100.0%

Key investment portfolio statistics are:

	As at 30 Sept 2014	As at 31 Dec 2013	As at 30 Sept 2013
Duration	1.5 years	1.0 year	1.0 year
Credit quality	AA-	AA-	AA-
Book yield	1.4%	1.4%	1.4%
Market yield	1.3%	1.2%	1.1%

Lancashire Capital Management

The \$1.8 million and \$4.3 million share of profit of associates for the third quarter and first nine months of 2014, respectively, mostly reflects Lancashire's 10% equity interest in the Kinesis vehicle. The share of profit of associates of \$2.5 million for the third quarter of 2013 and \$8.7 million for the nine months to 30 September 2013 was related to the Accordion and Saltire vehicles.

Other income recorded in the third quarter reflects the underwriting fee of \$2.9 million that Kinesis Capital Management earned for providing underwriting services to the Kinesis vehicle, and \$0.4 million of profit commission and managing agency fees relating to the Lloyd's segment. For the nine months to 30 September 2014 other income includes \$4.3 million for underwriting services to the Kinesis vehicle, \$3.9 million of profit commission and managing agency fees relating to the Lloyd's segment and \$3.0 million of final profit commission from the Saltire vehicle. During the first quarter of 2014 final profit commission of \$6.7 million was also received from the Accordion vehicle; this was recorded in net insurance acquisition costs.

Other operating expenses

Operating expenses consist of the following items:

	Q3		YTD	
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m
Employee salaries and benefits	8.6	8.3	28.9	25.6
Payroll taxes and national insurance on equity compensation	-	0.7	(1.9)	2.2
Other operating expenses	10.0	7.3	36.1	22.8
Total Lancashire, excluding Lloyd's segment	18.6	16.3	63.1	50.6
Lloyd's segment	8.1	–	21.2	–
Total	26.7	16.3	84.3	50.6

Employee remuneration costs were higher in the first nine months of 2014 compared to the same period in the prior year largely due to the retirement of the CEO. A slight increase in headcount also contributed to increased employee remuneration costs for both the third quarter of 2014 and the nine months to 30 September 2014 compared to the same periods in 2013. The third quarter of 2014 and the nine months to 30 September 2014 included reversals 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 included \$1.5 million for the third quarter of 2014 and \$8.4 million for the nine months to 30 September 2014 relating to the amortisation of intangible assets arising on the acquisition of Cathedral in the fourth quarter of 2013.

The Lloyd's segment in the third quarter includes \$4.8 million of employee remuneration costs and \$3.3 million of other operating expenses. The employee remuneration costs and other operating expenses for the corresponding quarter of 2013 (prior to the acquisition) were \$1.3 million and \$2.7 million, respectively. For the nine months to 30 September 2014 the Lloyd's segment includes \$12.8 million of employee remuneration costs and \$8.4 million of other operating expenses compared to \$14.4 million and \$8.0 million, respectively, for the same period in 2013 (prior to the acquisition). Cathedral employee remuneration costs include profit related pay provisions, which are accrued on a results basis and can vary from quarter to quarter.

Equity based compensation was \$3.7 million in the third quarter of 2014 compared to \$4.6 million in the same period last year. For the nine months to 30 September 2014 and 2013 the charge was \$14.4 million and \$11.8 million, respectively.

Capital

At 30 September 2014, total capital available to Lancashire was \$1.858 billion, comprising shareholders' equity of \$1.530 billion and \$328 million of long-term debt. Tangible capital was \$1.705 billion. Leverage was 17.7% on total capital and 19.3% on total tangible capital. Total capital and total tangible capital at 30 September 2013 was \$1.749 billion.

Repurchase program

During the third quarter of 2014, under the current Repurchase Program ratified at the Annual General Meeting on 30 April 2014, the Group commenced the repurchase of its own shares by way of market purchases. \$8.4 million of shares were repurchased during the third quarter of 2014 compared to \$nil in the same period in the prior year.

Warrants

The outstanding warrants to purchase the Company's common shares were issued on 16 December 2005 and expire on 16 December 2015. We saw a higher volume of warrant exercises during 2014, relative to prior year, and would expect this trend to continue until expiry. Warrant exercises during the quarter were as follows:

	Number of Management Team Performance warrants	Number of Management Team Ordinary warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants	Total Number of warrants
Outstanding and exercisable as at 30 June 2014	117,480	559,182	18,093,283	648,143	2,350,000	21,768,088
Exercised during the quarter	–	–	(2,829,210)	–	–	(2,829,210)
Outstanding and exercisable as at 30 September 2014	117,480	559,182	15,264,073	648,143	2,350,000	18,938,878

Dividends

During the third quarter of 2014, the Lancashire Board of Directors declared an interim dividend for 2014 of \$0.05 (£0.03) per common share. The dividends and dividend equivalent payments, totaling \$10.4 million in aggregate, were paid on 24 September 2014 to shareholders of record on 29 August 2014.

Special Dividend

Lancashire today announces that its Board of Directors has declared a special dividend for 2014 of \$1.20 per common share (approximately £0.75 per common share at the current exchange rate), which will result in an aggregate payment of approximately \$226.4 million. The dividend will be paid in Pounds Sterling on 19 December 2014 (the “Dividend Payment Date”) to shareholders of record on 28 November 2014 (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.capitaassetservices.com/products-and-services/shareholders-investors.cshtml>

In addition to the interim dividend payment to shareholders, a dividend equivalent payment of approximately \$22.7 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.

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 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 1:00pm UK time / 8:00am EST on Wednesday, 05 November 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 66200845#. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available until Thursday, 04 December 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 650753#. The replay facility will also be accessible at www.lancashiregroup.com

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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

Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); Standard & Poor's: A+ (Strong); and Fitch: AA- (Very 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 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire and Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), 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.

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.

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 FORWARD-LOOKING 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 3 2014 \$m	Quarter 3 2013 \$m	YTD 2014 \$m	YTD 2013 \$m
Gross premiums written	152.1	125.0	787.2	548.9
Outwards reinsurance premiums	(14.5)	(3.4)	(154.7)	(119.6)
Net premiums written	137.6	121.6	632.5	429.3
Change in unearned premiums	67.3	38.1	(133.5)	(58.7)
Change in unearned premiums ceded	(25.3)	(25.7)	41.9	23.9
Net premiums earned	179.6	134.0	540.9	394.5
Net investment income	6.7	6.1	21.4	18.7
Net other investment income (losses)	0.9	(1.6)	-	2.2
Net realised (losses) gains and impairments	(0.4)	(3.0)	(4.3)	9.1
Share of profit (loss) of associates	1.8	2.5	4.3	8.7
Other income	3.3	0.3	11.2	0.9
Net foreign exchange (losses) gains	(0.1)	17.6	(3.4)	21.2
Total net revenue	191.8	155.9	570.1	455.3
Insurance losses and loss adjustment expenses	92.4	76.1	218.2	181.8
Insurance losses and loss adjustment expenses recoverable	(11.9)	(0.5)	(13.0)	(44.9)
Net insurance acquisition expenses	40.7	29.8	113.7	87.5
Equity based compensation	3.7	4.6	14.4	11.8
Other operating expenses	26.7	16.3	84.3	50.6
Total expenses	151.6	126.3	417.6	286.8
Results of operating activities	40.2	29.6	152.5	168.5
Financing costs	4.1	3.9	17.5	5.6
Profit before tax	36.1	25.7	135.0	162.9
Tax (credit) charge	(1.8)	0.4	(7.6)	3.5
Profit after tax	37.9	25.3	142.6	159.4
Non-controlling interest	(0.3)	0.1	(0.1)	0.1
Profit after tax attributable to Lancashire	37.6	25.4	142.5	159.5
Net change in unrealised gains/losses on investments	(9.2)	7.0	1.1	(30.4)
Tax recovery (expense) on net change in unrealised gains/losses on investments	0.2	(0.1)	0.1	0.7
Other comprehensive income (loss)	(9.0)	6.9	1.2	(29.7)
Other comprehensive income attributable to Lancashire	28.6	32.3	143.7	129.8
Net loss ratio	44.8%	56.4%	37.9%	34.7%
Net acquisition cost ratio	22.7%	22.2%	21.0%	22.2%
Administrative expense ratio	14.9%	12.2%	15.6%	12.8%
Combined ratio	82.4%	90.8%	74.5%	69.7%
Basic earnings per share	\$0.20	\$0.15	\$0.77	\$0.96
Diluted earnings per share	\$0.19	\$0.13	\$0.72	\$0.86
Change in fully converted book value per share	1.6%	7.4%	8.1%	14.7%

Consolidated balance sheet

	Unaudited 30 Sept 2014 \$m	Unaudited 30 Sept 2013 \$m	Audited 31 Dec 2013 \$m
Assets			
Cash and cash equivalents	364.5	663.7	403.0
Accrued interest receivable	7.6	7.1	8.9
Investments	2,188.7	1,609.3	2,016.0
Reinsurance assets			
- Unearned premiums on premiums ceded	56.8	35.4	14.9
- Reinsurance recoveries	124.3	67.6	183.0
- Other receivables	6.8	1.8	10.8
Deferred acquisition costs	119.6	74.7	73.8
Other receivables	20.2	46.7	18.7
Inwards premiums receivable from insureds and cedants	368.8	234.4	288.4
Deferred tax asset	-	5.5	-
Corporation tax receivable	4.6	-	5.6
Investment in associates	30.1	56.1	64.7
Property, plant and equipment	9.4	1.7	2.8
Intangible assets	153.8	-	177.2
Total assets	3,455.2	2,804.0	3,267.8
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	843.8	521.7	853.4
- Unearned premiums	575.6	402.0	442.1
- Other payables	36.1	18.3	28.9
Amounts payable to reinsurers	40.9	25.9	30.9
Deferred acquisition costs ceded	0.4	2.0	0.2
Other payables	60.3	82.0	80.7
Corporation tax payable	-	0.5	-
Deferred tax liability	35.6	-	38.7
Interest rate swap	3.4	1.6	0.2
Long-term debt	328.5	259.5	332.3
Total liabilities	1,924.6	1,313.5	1,807.4
Shareholders' equity			
Share capital	96.1	92.7	92.7
Own shares	(28.6)	(41.7)	(36.8)
Share premium	-	192.2	192.2
Contributed surplus	856.6	649.0	645.7
Accumulated other comprehensive income	4.1	5.7	2.9
Other reserves	24.9	52.2	55.2
Retained earnings	576.7	539.3	507.8
Total shareholders' equity attributable to Lancashire	1,529.8	1,489.4	1,459.7
Non-controlling interest	0.8	1.1	0.7
Total liabilities and shareholders' equity	3,455.2	2,804.0	3,267.8

Statement of consolidated cashflows
(unaudited)

	Unaudited Nine months 2014 \$m	Unaudited Nine months 2013 \$m	Audited Twelve months 2013 \$m
Cash flows from operating activities			
Profit before tax	135.0	162.9	218.1
Tax paid	1.0	0.4	(0.4)
Depreciation	1.5	1.1	1.4
Amortisation of intangible asset	23.4	-	13.2
Interest expense on long-term debt	11.6	9.4	13.2
Interest, dividends and other income	(37.4)	(32.9)	(43.9)
Net amortisation of fixed income securities	7.5	9.9	12.9
Equity based compensation	14.4	11.8	16.7
Foreign exchange losses (gains)	6.8	(19.3)	(11.8)
Share of profit of associates	(4.2)	(8.7)	(9.2)
Net other investment losses (income)	0.1	(2.2)	(1.4)
Net realised losses (gains) and impairments	4.1	(9.1)	(12.6)
Net unrealised losses (gains) on interest rate swaps	3.3	(6.4)	(7.8)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	37.5	(5.1)	(26.1)
- Other assets and liabilities	(24.8)	(1.2)	5.4
Net cash flows from operating activities	179.8	110.6	167.7
Cash flows (used in) from investing activities			
Interest, dividends and other income received	41.0	36.2	44.4
Net purchase of property, plant and equipment	(8.2)	-	(0.1)
Investment in associates	38.8	34.7	26.6
Acquisition of subsidiaries, net of cash required	-	-	(227.2)
Purchase of investments	(1,719.4)	(899.4)	(1,277.9)
Proceeds on sale of investments	1,531.7	1,135.1	1,521.2
Net cash flows (used in) from investing activities	(116.1)	306.6	87.0
Cash flows used in financing activities			
Interest paid	(13.5)	(11.1)	(12.0)
Proceeds from issue of shares, net of share issue costs	-	198.2	198.2
Dividends paid	(73.6)	(231.1)	(325.6)
Shares repurchased	(8.1)	-	-
Warrants exercised	14.1	-	-
RSS Compensation	(9.8)	-	-
Distributions by trust	(6.0)	(7.3)	(8.6)
Issue of shares to non-controlling interest	-	1.2	1.3
Net cash flows used in financing activities	(96.9)	(50.1)	(146.7)
Net (decrease) increase in cash and cash equivalents	(33.2)	367.1	108.0
Cash and cash equivalents at beginning of period	403.0	295.8	295.8
Effect of exchange rate fluctuations on cash and cash equivalents	(5.3)	0.8	(0.8)
Cash and cash equivalents at end of period	364.5	663.7	403.0