

# Lancashire Holdings Limited

Hamilton, Bermuda, 22 November 2006

## **LANCASHIRE ANTICIPATES HEALTHY TRADING CONDITIONS IN 2007**

Lancashire Holdings Limited (“Lancashire” or “the Company”) today released a statement on trading conditions, operations and results to date.

Lancashire is a specialty insurance company which underwrites a diverse worldwide portfolio of short-tail property risks through its licensed subsidiaries. The Company focuses on property, energy, marine and aviation classes. Risks are written primarily on a direct basis, constituting approximately two thirds of bound premium. The portfolio is diversified between risks exposed to natural catastrophes and a range of classes uncorrelated to such events. Non-correlating risks represent approximately half of projected premiums in 2006.

In the majority of classes of risks written by Lancashire, with the exception of marine, the favourable pricing and terms of 2006 are anticipated to remain healthy through 2007, particularly in catastrophe-exposed zones. Outside these zones, there may be some modest weakening but pricing is expected but to remain broadly acceptable in most classes. Overall, the outlook for 2007 trading conditions for Lancashire is attractive.

### **Richard Brindle, Chief Executive Officer and Chief Underwriting Officer commented:**

“Lancashire has enjoyed a very successful year so far. We are extremely pleased to have developed relationships with a high quality base of insurance clients across all segments; relationships we aim to develop further in years to come. As 2006 has progressed we have made large strides in broadening our underwriting team, creating a sophisticated risk management toolkit and in building support functions to efficiently service the workflow. We now have 54 staff between London and Bermuda, including 11 underwriters, which provides Lancashire with the resources to meet our business needs. This operational readiness, including our recently launched UK underwriting operation, will enable us to take full advantage of what we believe will be an attractive trading environment for Lancashire in 2007.”

“We have been very pleased with the property and energy segments, where we have experienced robust pricing and favourable loss experience. In the marine sector, while we have enjoyed a low level of claims, we have consistently been disappointed with pricing. As such, we have declined to write a large proportion of what has been presented and premiums are less than expected as a result. Trading conditions in the AV52 aviation sector have been acceptable albeit not at the level of property or energy.”

“We are positioning Lancashire to efficiently trade through all market cycles. We aim to achieve this through active sector selection, by nurturing client relationships, and by maintaining a nimble capital structure. Throughout, we will maintain the underwriting discipline that is embedded in our culture. Toward these ends, we are continually exploring new opportunities to enhance our core business strategy. We are confident these will further develop the Lancashire franchise.”

**Market commentary by line of business:**

In the property line, which currently represents approximately 40% of Lancashire's total 2006 premium, trading conditions are expected to remain strong. Year on year prices are expected to hold firm or modestly increase in certain areas for the direct property and retrocession classes which form the majority of the segment. The terrorism class, which is a smaller component of the sector, is broadly priced at acceptable levels but, absent loss events, is expected to slowly decline in 2007. This trend may be reversed if the U.S. Terrorism Risk Insurance Extension Act ("TRIEA"), with its "make available" and other requirements, is not renewed at the end of 2007.

The energy line also currently contributes approximately 40% of total premium. Excellent trading conditions in the segment have been driven by the unprecedented risk adjusted pricing for Gulf of Mexico direct insurance, where we believe Lancashire is one of the leading industry markets. Despite the lack of hurricanes in 2006, initial expectations are that pricing and terms for Gulf of Mexico risks will weaken by a relatively small level in 2007, remaining very attractive. Outside the Gulf of Mexico, trading conditions are generally reasonable and this is largely expected to continue.

The marine and aviation lines each currently represent approximately ten percent of the Lancashire portfolio. As noted in the half year trading statement, marine has been the most disappointing sector in 2006. At present there appears to be no impetus for this to change and Lancashire's approach will remain one of careful risk selection. In terms of the aviation sector, Lancashire focuses on third party liability resulting from aviation terrorist events ("AV52"). Unlike the general aviation sector, trading conditions in the niche AV52 class are at acceptable levels. In the continued absence of a large industry event, AV52 pricing may decline as 2007 progresses but is expected to remain acceptable.

**Neil McConachie, Chief Financial Officer commented:**

"Lancashire has always employed a robust and transparent approach to risk management. As of September 30, our modeled exposure to a single 1 in 100 year occurrence was less than 25% of capital. This does not take into account profits made during the rest of the year. Following the January renewal season, we will be in a better position to determine our capital needs. No decisions on the appropriate amount and structure of capital for 2007 have been made at this time. At all times we will aim to maximize the risk-adjusted return for our shareholders and our mantra remains unchanged: We will match capital to the underwriting opportunities, not the other way around."

For the third quarter of 2006, the growth in fully converted book value per share was 5.7% or 25.0% on an annualised basis. In the absence of major losses, the growth in fully converted book value per share for 2006 is expected to be in the range of 16% to 20%.

GAAP gross written premium for 2006 is expected to be in the range of \$615 million to \$625 million depending on market conditions through the end of the year. This is based on projected bound premium of \$675 million to \$700 million. The marine segment has remained largely unattractive and we have declined a higher than expected number of deals in the second half of the year. AV52 aviation, where a large number of deals are written in the fourth quarter, has also seen somewhat weaker pricing than we anticipated earlier in the year. GAAP net written premium is expected to be in the range of \$530 million to \$540 million. The ratio of net earned premium to net written premium in 2006 is expected to be approximately 50%. As 2007 progresses, the ratio

of net earned premium to net written premium will rise significantly from that experienced in our first full year of operations.

At September 30, investments and cash stood at \$1.28 billion. Fixed income and cash comprised 93% of the balance, and equities comprised 7%. The yield on the fixed income portfolio was 5.3%, the average credit quality was AA+ and duration was 2.3 years.

Lancashire expects to issue a trading statement in the first quarter of 2007.

Lancashire will be hosting an analyst and investor conference call at 15:30 UK time / 10:30 EST today to discuss the trading update. The conference call will be hosted by Richard Brindle, Chief Executive and Chief Underwriting Officer, Simon Burton, Deputy Chief Underwriting Officer and Neil McConachie, Chief Financial Officer.

The call can be accessed by dialing +44 (0)20 7365 1843 / +1 718 354 1152. A replay facility will be available for two weeks until 6 December 2006. The dial in number for the replay facility is +44 (0)20 7806 1970 / +1 718 354 1112 and the passcode is 1143104#.

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**About Lancashire**

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. Its insurance subsidiaries carry the Lancashire group rating of A minus (Excellent) from A.M. Best with a stable outlook. Lancashire has capital in excess of \$1 billion dollars and its Common Shares trade on AIM under the ticker symbol LRE. Lancashire is headquartered at Mintflower Place, 8 Par-La-Ville Road, Hamilton HM 08, Bermuda. The mailing address is Lancashire Holdings Limited, P.O. Box HM 2358, Hamilton HM HX, Bermuda. For more information on Lancashire, visit the Company's website at [www.lancashire.bm](http://www.lancashire.bm).

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