

Lancashire Holdings Limited

Hamilton, Bermuda, 10 August 2007

LANCASHIRE HOLDINGS LIMITED

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

This disclosure should be read in conjunction with Lancashire Holdings Limited's prior announcement of interim results for the six month period ended 30 June 2007 on 6 August 2007.

Upon receipt of an opinion review letter from auditors, Ernst & Young Ltd., Lancashire today discloses its full unaudited condensed interim consolidated financial statements for the six month period 30 June 2007, including the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement and relevant notes to the consolidated financial statements.

There is no material change in the results for the six month period ended 30 June 2007 from the prior announcement on 6 August 2007.

**condensed interim consolidated income statement
for the six months ended june 30, 2007**

	notes	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
gross premiums written		451.5	316.3	626.0
outwards reinsurance premiums	17	(75.4)	(71.0)	(78.5)
net premiums written		376.1	245.3	547.5
change in unearned premiums	12	(128.4)	(241.4)	(323.1)
change in unearned premiums on premium ceded	12	44.4	60.4	19.1
net premiums earned		292.1	64.3	243.5
net investment income	3	35.3	24.2	54.2
net other investment (losses) income	3, 14	(0.8)	-	1.8
net realised gains (losses) and impairments	3	4.4	(3.4)	0.8
net fair value gains on investments at fair value through income	3	0.3	-	-
share of profit of associate	11	2.8	-	3.2
net foreign exchange gains (losses)		1.8	(1.1)	(1.3)
total net revenue		335.9	84.0	302.2
insurance losses and loss adjustment expenses	12	84.8	7.4	39.1
insurance losses and loss adjustment expenses recoverable	12	(0.5)	-	-
net insurance losses		84.3	7.4	39.1
net insurance acquisition expenses	4, 17	41.2	7.6	34.9
other operating expenses	5, 6, 17	33.2	24.2	56.4
total expenses		158.7	39.2	130.4
results of operating activities		177.2	44.8	171.8
finance costs	13, 14	6.1	5.5	12.3
profit before tax		171.1	39.3	159.5
tax	7, 8	0.7	-	0.2
profit for the period attributable to equity shareholders		170.4	39.3	159.3
earnings per share				
basic	16	\$0.87	\$0.20	\$0.81
diluted	16	\$0.83	\$0.20	\$0.79

**condensed interim consolidated balance sheet
as at june 30, 2007**

	notes	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
assets				
cash and cash equivalents	9	367.7	215.0	400.1
accrued interest receivable		10.5	7.9	7.5
investments				
- fixed income securities				
- available for sale	10, 13	1,220.1	885.8	896.3
- at fair value through income	10	17.5	-	-
- equity securities	10	68.7	67.6	70.3
- other investments	10, 14	9.3	-	11.5
reinsurance assets				
- unearned premium on premium ceded	12, 17	63.5	60.4	19.1
- reinsurance recoveries	12	0.5	-	-
deferred acquisition costs		63.8	29.7	51.5
other receivables		12.6	80.6	6.3
inwards premium receivable from insureds and cedants		252.1	165.0	173.7
deferred tax asset	7, 8	1.2	-	0.8
investment in associate	11	21.4	20.0	23.2
property, plant and equipment		2.7	0.6	2.4
total assets		2,111.6	1,532.6	1,662.7
liabilities				
insurance contracts				
- losses and loss adjustment expenses	12	121.7	7.4	39.1
- unearned premiums	12	454.1	244.0	325.7
- other payables	12	6.2	-	3.6
amounts payable to reinsurers	12, 17	60.8	32.0	2.4
deferred acquisition costs ceded	17	7.1	5.6	2.5
other payables		19.6	124.7	20.8
corporation tax payable	7	2.2	-	1.0
interest rate swap	14	-	-	0.9
accrued interest payable		0.4	0.5	0.5
long-term debt		129.3	127.1	128.6
total liabilities		801.4	541.3	525.1
shareholders' equity				
share capital	16	97.9	97.9	97.9
share premium		40.2	871.4	33.6
contributed surplus		849.5	-	849.7
fair value and other reserves	3, 10	4.5	(5.7)	8.7
retained earnings		318.1	27.7	147.7
total shareholders' equity attributable to equity shareholders		1,310.2	991.3	1,137.6
total liabilities and shareholders' equity		2,111.6	1,532.6	1,662.7

**condensed interim consolidated statement of changes in shareholders' equity
for the six months ended june 30, 2007**

	notes	share capital \$m	share premium \$m	contributed surplus \$m	fair value and other reserves \$m	retained earnings \$m	total \$m
balance as at january 1, 2007		97.9	33.6	849.7	8.7	147.7	1,137.6
profit for the period		-	-	-	-	170.4	170.4
change in investment unrealised gains (losses)	3, 10	-	-	-	(4.2)	-	(4.2)
total recognised income for the period		-	-	-	(4.2)	170.4	166.2
issue of share capital	15	-	0.2	(0.2)	-	-	-
warrant issues - management and performance	6	-	4.8	-	-	-	4.8
option issues - management	6	-	1.6	-	-	-	1.6
balance as at june 30, 2007		97.9	40.2	849.5	4.5	318.1	1310.2

	notes	share capital \$m	share premium \$m	contributed surplus \$m	fair value and other reserves \$m	retained (deficit) earnings \$m	total \$m
balance as at january 1, 2006		97.9	860.8	-	-	(11.6)	947.1
profit for the period		-	-	-	-	39.3	39.3
change in investment unrealised gains (losses)	3, 10	-	-	-	(5.7)	-	(5.7)
total recognised income for the period		-	-	-	(5.7)	39.3	33.6
warrant issues - management and performance	6	-	9.8	-	-	-	9.8
option issues - management	6	-	0.8	-	-	-	0.8
balance as at june 30, 2006		97.9	871.4	-	(5.7)	27.7	991.3
profit for the period		-	-	-	-	120.0	120.0
change in investment unrealised gains (losses)	3, 10	-	-	-	14.4	-	14.4
total recognised income for the period		-	-	-	14.4	120.0	134.4
issue of share capital	15	-	0.3	(0.3)	-	-	-
transfer from share premium to contributed surplus		-	(850.0)	850.0	-	-	-
warrant issues - management and performance	6	-	10.7	-	-	-	10.7
option issues - management	6	-	1.2	-	-	-	1.2
balance as at december 31, 2006		97.9	33.6	849.7	8.7	147.7	1,137.6

**condensed interim consolidated cash flow statement
for the six months ended june 30, 2007**

	notes	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
cash flows from operating activities				
profit before interest and tax		141.4	19.4	116.4
interest income	3	35.3	25.0	53.6
interest expense		(5.6)	(5.1)	(10.6)
tax	7	(0.7)	-	(0.2)
depreciation		0.7	-	0.6
amortisation of debt securities		(0.7)	-	(1.2)
employee benefit expense	5, 6	6.4	10.6	22.5
foreign exchange		(1.3)	1.1	1.9
share of profit of associate	11	(2.8)	-	(3.2)
net unrealised losses (gains) on derivative financial instruments	3, 14	0.8	-	(1.8)
net realised (gains) losses and impairments on investments	3	(4.4)	3.4	(0.8)
net fair value gains on investments at fair value through income	3	(0.3)	-	-
unrealised (gains) losses on swaps	14	(0.9)	-	0.9
accrued interest receivable		(3.0)	(5.9)	(5.6)
reinsurance assets				
- unearned premium on premium ceded		(44.4)	(60.4)	(19.1)
- reinsurance recoveries		(0.5)	-	-
deferred acquisition costs		(12.3)	(29.2)	(51.0)
other receivables		(6.3)	(80.3)	(6.0)
inwards premium receivable from insureds and cedants		(77.2)	(162.6)	(171.4)
deferred tax asset		(0.4)	-	(0.8)
insurance contracts				
- losses and loss adjustment expenses		82.7	7.4	39.1
- unearned premiums		128.4	241.4	323.1
- other payables		2.6	-	3.6
amounts payable to reinsurers		57.8	32.0	2.4
deferred acquisition costs ceded		4.6	5.6	2.5
other payables		(1.1)	122.4	18.6
corporation tax payable		1.2	-	1.0
accrued interest payable		(0.1)	0.1	-
net cash flows from operating activities		299.9	124.9	314.5
cash flows from investing activities				
purchase of property, plant and equipment		(1.0)	(0.3)	(2.6)
investment in associate	11	-	(20.0)	(20.0)
dividends received from associate	11	4.6	-	-
purchase of debt securities		(942.5)	(1,547.2)	(2,086.1)
purchase of equity securities		(15.1)	(69.5)	(76.1)
proceeds on maturity and disposal of debt securities		595.4	650.1	1,185.6
proceeds on disposal of equity securities		23.0	4.3	20.9
net purchase of other investments		2.1	-	(9.7)
net cash flows used in investing activities		(333.5)	(982.6)	(988.0)
net decrease in cash and cash equivalents				
		(33.6)	(857.7)	(673.5)
cash and cash equivalents at beginning of period		400.1	1,072.4	1,072.4

effect of exchange rate fluctuations on cash and cash equivalents		1.2	0.3	1.2
cash and cash equivalents at end of period	9	367.7	215.0	400.1

**accounting policies
for the six months ended june 30, 2007**

summary of significant accounting policies

The basis of preparation, consolidation principles, estimation techniques and significant accounting policies adopted in the preparation of Lancashire Holdings Limited ("LHL") and its subsidiaries' (collectively "the Group") condensed interim consolidated financial statements are those that the Group expects to apply for the year ending December 31, 2007. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended December 31, 2006.

basis of preparation

The Group's condensed interim consolidated financial statements are prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") endorsed by the European Commission and in accordance with IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements.

For the period ending June 30, 2006 there had been significant development in the Group's business from the previous audited consolidated financial statements so condensed interim consolidated financial statements were not presented. It was management's preference at the time to share the details of those developments with shareholders and other users, and the Group's interim consolidated financial statements were prepared in accordance with accounting principles generally accepted under IFRS endorsed by the European Commission.

All amounts, excluding share data or where otherwise stated, are in millions of United States ("U.S.") dollars.

The condensed interim consolidated balance sheet of the Group is presented in order of decreasing liquidity.

risk disclosures

The Group's risk management and risk appetite remains consistent with that disclosed in the consolidated annual financial statements for the year ended December 31, 2006.

**notes to the accounts
for the six months ended june 30, 2007**

1. general information

The Group is a provider of global property insurance and reinsurance products. LHL was incorporated under the laws of Bermuda on October 12, 2005. LHL is listed on the Alternative Investment Market ("AIM"), a subsidiary market of the London Stock Exchange. A secondary listing on the Bermuda Stock Exchange ("BSX") was approved on May 21, 2007. The registered office of LHL is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. LHL has five wholly owned subsidiaries: Lancashire Insurance Company Limited ("LICL"), Lancashire Insurance Holdings (UK) Limited ("LIHUKL"), Lancashire Insurance Marketing Services Limited ("LIMSL"), Lancashire Insurance Services Limited ("LISL") and Lancashire Marketing Services (Middle East) Limited ("LMSMEL"). LIHUKL is a holding company for a wholly owned operating subsidiary, Lancashire Insurance Company (UK) Limited ("LICUKL").

The subsidiaries were incorporated and are licensed as follows:

	LICL	LICUKL	LIMSL	LISL	LMSMEL
date of incorporation	oct 28, 2005	mar 17, 2006	oct 7, 2005	mar 17, 2006	mar 11, 2007
licensing body	BMA ⁽¹⁾	FSA ⁽²⁾	FSA	none	DFSA ⁽³⁾

⁽¹⁾ Bermuda Monetary Authority

⁽²⁾ United Kingdom, Financial Services Authority

⁽³⁾ Dubai Financial Services Authority

2. segmental reporting

Management and the Board review the Group's business primarily by its four principal classes: property, energy, marine and aviation. Management has therefore deemed these classes to be its business and primary segments for the purposes of segmental reporting. Further sub classes of business are underwritten within each primary segment.

The Group's net assets are located primarily in Bermuda. Less than 10% (June 30, 2006 – less than 1%; December 31, 2006 – less than 10%) of total net assets are currently attributable to the UK operations.

revenue and expense by business segment – six months ended june 30, 2007

gross premiums written	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
analysed by geographical segment:					
worldwide offshore	0.4	142.1	29.2	-	171.7
worldwide including the U.S.	40.3	22.3	9.9	26.4	98.9
U.S. and Canada	76.9	11.0	0.2	-	88.1
worldwide excluding the U.S.	40.8	1.1	0.4	0.1	42.4
europa	16.5	0.4	4.2	0.5	21.6
rest of world	12.9	1.2	0.8	-	14.9
far east	5.7	1.4	0.2	-	7.3
middle east	2.3	5.4	(1.1)	-	6.6
total	195.8	184.9	43.8	27.0	451.5
outwards reinsurance premiums	(20.7)	(54.7)	-	-	(75.4)
change in unearned premiums	(61.2)	(61.3)	(12.1)	6.2	(128.4)
change in unearned premiums ceded	9.6	34.8	-	-	44.4
net premiums earned	123.5	103.7	31.7	33.2	292.1
insurance losses and loss adjustment expenses	32.4	35.4	15.6	1.4	84.8
insurance losses and loss adjustment expenses recoverable	-	(0.5)	-	-	(0.5)
insurance acquisition expenses	14.6	18.8	6.4	5.8	45.6
insurance acquisition expenses ceded	(0.4)	(4.0)	-	-	(4.4)
net underwriting profit	76.9	54.0	9.7	26.0	166.6
net investment income					35.3
net other investment income					(0.8)
net realised gains and impairments					4.4
net fair value gains on investments at fair value through income					0.3
share of profit of associate					2.8
net foreign exchange gains					1.8
operating expenses unrelated to underwriting					(26.8)
equity based compensation					(6.4)
finance costs					(6.1)
profit before tax					171.1
tax					(0.7)
profit for the period attributable to equity shareholders					170.4
loss ratio	26.2%	33.7%	49.2%	4.2%	28.9%
acquisition cost ratio	11.5%	14.3%	20.2%	17.5%	14.1%
expense ratio	-	-	-	-	9.2%
combined ratio	37.7%	48.0%	69.4%	21.7%	52.2%

assets and liabilities by business segment – as at june 30, 2007

assets	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
attributable to business segments	123.8	173.3	39.1	52.4	388.6
other assets					1,723.0
total assets					2,111.6
liabilities					
attributable to business segments	237.8	298.5	65.8	47.7	649.8
other liabilities					151.6
total liabilities					801.4
total net assets					1,310.2

revenue and expense by business segment – six months ended june 30, 2006

gross premiums written	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
analysed by geographical segment:					
worldwide offshore	-	97.3	14.5	-	111.8
worldwide including the U.S.	40.8	19.8	1.7	13.9	76.2
U.S. and Canada	54.3	25.0	0.2	-	79.5
worldwide excluding the U.S.	24.8	-	0.4	-	25.2
rest of world	4.7	4.3	2.0	-	11.0
far east	3.4	0.2	2.5	-	6.1
middle east	1.4	4.6	0.4	0.1	6.5
total	129.4	151.2	21.7	14.0	316.3
outwards reinsurance premiums	(39.8)	(31.2)	-	-	(71.0)
change in unearned premiums	(91.3)	(123.7)	(15.5)	(10.9)	(241.4)
change in unearned premiums ceded	32.3	28.1	-	-	60.4
net premiums earned	30.6	24.4	6.2	3.1	64.3
insurance losses and loss adjustment expenses	2.1	3.5	1.8	-	7.4
insurance losses and loss adjustment expenses recoverable	-	-	-	-	-
insurance acquisition expenses	3.1	2.9	1.0	0.6	7.6
net underwriting profit	25.4	18.0	3.4	2.5	49.3
net investment income					24.2
net realised losses and impairments					(3.4)
net foreign exchange losses					(1.1)
operating expenses unrelated to underwriting					(13.6)
equity based compensation					(10.6)
finance costs					(5.5)
profit for the period attributable to equity shareholders					39.3
loss ratio	6.9%	14.3%	29.0%	-	11.6%
acquisition cost ratio	10.1%	11.9%	16.1%	19.4%	11.8%
expense ratio	-	-	-	-	21.1%
combined ratio	17.0%	26.2%	45.1%	19.4%	44.5%

assets and liabilities by business segment – as at june 30, 2006

assets	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
attributable to business segments	110.4	123.8	14.6	12.6	261.4
other assets					1,271.2
total assets					1,532.6
liabilities					
attributable to business segments	100.7	160.1	17.3	10.9	289.0
other liabilities					252.3
total liabilities					541.3
total net assets					991.3

revenue and expense by business segment – twelve months ended december 31, 2006

gross premiums written	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
analysed by geographical segment:					
worldwide offshore	-	175.5	33.9	-	209.4
worldwide including the U.S.	71.5	26.2	7.4	63.1	168.2
U.S. and Canada	111.7	31.4	0.4	-	143.5
worldwide excluding the U.S.	31.4	0.5	0.6	0.1	32.6
europa	12.3	1.9	2.8	-	17.0
rest of world	10.3	6.8	-	1.2	18.3
far east	10.6	2.6	6.7	-	19.9
middle east	6.7	9.0	1.3	0.1	17.1
total	254.5	253.9	53.1	64.5	626.0
outwards reinsurance premiums	(39.8)	(38.7)	-	-	(78.5)
change in unearned premiums	(123.5)	(119.4)	(28.8)	(51.4)	(323.1)
change in unearned premiums ceded	7.3	11.8	-	-	19.1
net premiums earned	98.5	107.6	24.3	13.1	243.5
insurance losses and loss adjustment expenses	13.2	17.2	8.7	-	39.1
insurance losses and loss adjustment expenses recoverable	-	-	-	-	-
insurance acquisition expenses	12.7	20.1	4.6	2.6	40.0
insurance acquisition expenses ceded	(1.5)	(3.6)	-	-	(5.1)
net underwriting profit	74.1	73.9	11.0	10.5	169.5
net investment income					54.2
net other investment income					1.8
net realised gains and impairments					0.8
share of profit of associate					3.2
net foreign exchange losses					(1.3)
operating expenses unrelated to underwriting					(33.9)
equity based compensation					(22.5)
finance costs					(12.3)
profit before tax					159.5
tax					(0.2)
profit for the period attributable to equity shareholders					159.3
loss ratio	13.4%	16.0%	35.8%	-	16.1%
acquisition cost ratio	11.4%	15.3%	18.9%	19.8%	14.3%
expense ratio	-	-	-	-	13.9%
combined ratio	24.8%	31.3%	54.7%	19.8%	44.3%

assets and liabilities by business segment – as at december 31, 2006

assets	\$m	\$m	\$m	\$m	\$m
	property	energy	marine	aviation	total
attributable to business segments	82.2	82.7	29.3	57.0	251.2
other assets					1,411.5
total assets					1,662.7
liabilities					
attributable to business segments	128.8	154.6	38.2	51.7	373.3
other liabilities					151.8
total liabilities					525.1
total net assets					1,137.6

3. investment return

The total investment return for the Group is as follows:

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
investment income			
- interest on fixed income securities	27.7	10.8	33.3
- net amortisation of premium (discount)	1.4	0.4	3.2
- interest income on cash and cash equivalents	7.6	13.0	19.2
- dividends from equity securities	0.3	-	0.8
- investment management and custodian fees	(1.7)	-	(2.3)
net investment income	35.3	24.2	54.2
- net realised and unrealised (losses) gains	(0.8)	-	1.8
net other investment (losses) income	(0.8)	-	1.8
net realised gains (losses) and impairments			
- fixed income securities	2.6	(3.4)	(2.4)
- equity securities	1.8	-	3.2
net realised gains (losses) and impairments	4.4	(3.4)	0.8
net fair value gains on investments at fair value through income	0.3	-	-
net unrealised gains (losses) recognised in shareholders' equity			
- fixed income securities	(8.6)	(8.1)	2.6
- equity securities	4.4	2.4	6.1
net unrealised gains (losses) recognised in shareholders' equity	(4.2)	(5.7)	8.7
total investment return	35.0	15.1	65.5

Net realised gains (losses) and impairments on equity securities includes an impairment loss of \$nil (June 30, 2006 - \$nil; December 31, 2006 - \$0.4 million) recognised on equity investments held by the Group.

4. net insurance acquisition expenses

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
insurance acquisition expenses	58.0	31.2	91.0
changes in deferred insurance acquisition expenses	(12.3)	(23.6)	(51.0)
insurance acquisition expenses ceded	(9.1)	-	(7.6)
changes in deferred insurance acquisition expenses ceded	4.6	-	2.5
total	41.2	7.6	34.9

5. other operating expenses

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
operating expenses unrelated to underwriting	26.8	13.6	33.9
equity based compensation	6.4	10.6	22.5
total	33.2	24.2	56.4

6. employee benefits

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
wages and salaries	5.5	1.9	5.4
pension costs	0.5	0.2	0.6
other benefits	8.0	2.4	7.5
equity based compensation	6.4	10.6	22.5
total	20.4	15.1	36.0

equity based compensation

warrants

warrants	number thousands	weighted average exercise price US\$
allocated as at december 31, 2005	14,463	\$5.00
allocated during the period	2,567	\$5.00
allocated as at june 30, 2006	17,030	\$5.00
allocated during the period	2,267	\$5.00
allocated as at december 31, 2006	19,297	\$5.00
allocated during the period	-	\$5.00
allocated as at june 30, 2007	19,297	\$5.00
exercisable at june 30, 2007	6,030	\$5.00

The fair value of warrants granted for all periods reported was \$2.62 per share as there were no further issues in 2007. A share-based payment expense of \$4.8 million (June 30, 2006 - \$9.8 million; December 31, 2006 - \$20.5 million) is included in other operating expenses in the condensed interim consolidated income statement.

long term incentive plan (“LTIP”)

Options may be granted under the LTIP at the discretion of the Remuneration Committee. Options granted under the LTIP are limited to 5% of the fully diluted common share capital in issue at the Initial Public Offering date assuming 5% management warrants are also in issue. All options issued will expire ten years from date of issue. The exercise price for options awarded prior to May 1, 2007 is equal to or greater than the average market value of the shares on the twenty previous trading days prior to grant. For subsequent awards it is set at the closing market price on the fifth business day after the decision to award the options is made.

The range of exercise prices for options are as follows:

jun 30, 2007		jun 30, 2006		dec 31, 2006	
low	high	low	high	low	high
£3.25	£3.55	£3.25	£3.55	£3.25	£3.55
\$6.51	\$7.11	\$5.90	\$6.44	\$6.37	\$6.95

25% of options vest on each of the first, second, third and fourth anniversary of the grant date. There are no associated performance criteria. Settlement is at the discretion of the Group and may be in cash or shares.

In the first six months of 2007, certain members of staff were issued options to purchase 3,869,013 common shares (June 30, 2006 – 2,249,439; December 31, 2006 – 2,401,943). Options to purchase 101,670 common shares were forfeited during 2006.

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions used for valuation of these grants were as follows: risk free interest rate of 5.0% (June 30, 2006 and December 31, 2006 - 5.125%); an expected life of six years; volatility of 30% being the maximum contractual rate; dividend yield of nil due to contractual dividend protection; the Group will settle in shares; no forfeitures, other than leavers which are assumed to be 10% of total employees, and no dilutive events.

options	number thousands	weighted average exercise price US\$
granted during the period and outstanding as at June 30, 2006	2,249	\$6.51
forfeited during the period	(101)	\$6.51
granted during the period	254	\$7.10
outstanding as at December 31, 2006	2,402	\$6.57
granted during the period	3,869	\$7.00
outstanding as at June 30, 2007	6,271	\$6.84
exercisable at June 30, 2007	537	\$6.51

The weighted fair value of options granted during the period ended June 30, 2007 was \$2.61 per option (June 30, 2006 - \$2.27; December 31, 2006 - \$2.32). A share-based payment expense of \$1.6 million (June 30, 2006 - \$0.8 million; December 31, 2006 - \$2.0 million) is included in other operating expenses in the condensed interim consolidated income statement.

7. tax

United Kingdom

The UK subsidiaries are subject to normal UK corporation tax on all their profits.

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
current tax expense	1.1	-	1.0
deferred tax income statement credit (note 8)	(0.4)	-	(0.8)
total	0.7	-	0.2

The standard rate of corporation tax in the UK is 30% (2006 - 30%). The current tax charge as a percentage of the Group's profit before tax is 0.4% (June 30, 2006 – nil; December 31, 2006 – 0.1%) due to the different tax paying jurisdictions throughout the Group.

8. deferred tax

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
deferred tax assets	1.2	-	0.8
deferred tax liabilities	-	-	-
net deferred tax asset	1.2	-	0.8

The movement on the total net deferred tax asset is as follows:

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
as at beginning of period	0.8	-	-
income statement credit	0.4	-	0.8
as at end of period	1.2	-	0.8

Deferred tax assets were comprised of the following:

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
share warrants and options	1.2	-	0.8
total	1.2	-	0.8

As at June 30, 2007, deferred tax liabilities were negligible (June 30, 2006 - \$nil; December 31, 2006 - negligible).

9. cash and cash equivalents

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
cash at bank and in hand	186.0	72.6	50.0
cash equivalents	181.7	142.4	350.1
total	367.7	215.0	400.1

Cash and cash equivalents totaling \$11.0 million (June 30, 2006 - \$10.5 million; December 31, 2006 - \$10.9 million) were on deposit in various trust accounts for the benefit of policyholders or counterparties to agreements to cover their credit risk.

Cash and cash equivalents totaling \$58.7 million (June 30, 2006 - \$nil; December 31, 2006 - \$25.1 million) were on deposit as collateral in favour of letters of credit issued for the benefit of policyholders or counterparties to cover their credit risk.

10. investments

as at june 30, 2007	\$m	\$m	\$m	\$m
	cost or amortised cost	gross unrealised gain	gross unrealised loss	estimated fair value
fixed income				
- U.S. treasuries	141.2	0.3	(0.5)	141.0
- U.S. government agencies	235.6	0.1	(0.6)	235.1
- asset backed securities	136.1	-	(0.2)	135.9
- mortgage backed securities	459.0	0.6	(3.8)	455.8
- corporate bonds	229.9	-	(1.2)	229.3
- convertible debt securities	24.3	0.6	(1.3)	23.0
total fixed income securities	1,226.1	1.6	(7.6)	1,220.1
equity securities	58.2	11.5	(1.0)	68.7
total available for sale securities	1,284.3	13.1	(8.6)	1,288.8
fixed income securities, at fair value through income	17.2	0.6	(0.3)	17.5
other investments	8.3	2.3	(1.3)	9.3
total	1,309.8	16.0	(10.2)	1,315.6

as at june 30, 2006	\$m	\$m	\$m	\$m
	cost or amortised cost	gross unrealised gain	gross unrealised loss	estimated fair value
fixed income				
- short term investments	2.0	-	-	2.0
- U.S. treasuries	93.2	0.1	(1.0)	92.3
- U.S. government agencies	173.1	-	(1.4)	171.7
- asset backed securities	110.5	-	(0.7)	109.8
- mortgage backed securities	328.1	-	(3.6)	324.9
- corporate bonds	162.2	0.4	(2.2)	160.0
- convertible debt securities	24.8	0.6	(0.3)	25.1
total fixed income securities	893.9	1.1	(9.2)	885.8
equity securities	65.2	3.7	(1.3)	67.6
total available for sale securities	959.1	4.8	(10.5)	953.4

as at december 31, 2006	\$m	\$m	\$m	\$m
	cost or amortised cost	gross unrealised gain	gross unrealised loss	estimated fair value
fixed income				
- short term investments	6.9	-	-	6.9
- U.S. treasuries	30.8	-	-	30.8
- U.S. government agencies	150.3	0.2	(0.1)	150.4
- asset backed securities	121.0	0.2	(0.1)	121.1
- mortgage backed securities	365.6	2.0	(0.5)	367.1
- corporate bonds	190.2	1.1	(0.2)	191.1
- convertible debt securities	28.9	-	-	28.9
total fixed income securities	893.7	3.5	(0.9)	896.3
equity securities	64.2	7.0	(0.9)	70.3
other investments	9.7	1.9	(0.1)	11.5
total available for sale securities	967.6	12.4	(1.9)	978.1

Equity securities and other investments are generally deemed non-current.

Investments totalling \$36.4 million (June 30, 2006 and December 31, 2006 - \$nil) were on deposit as collateral in favour of letters of credit issued for the benefit of third party policyholders or counterparties to cover their credit risk.

11. investment in associate

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
as at beginning of period	23.2	-	-
acquisition	-	20.0	20.0
distributions received	(4.6)	-	-
share of profit of associate	2.8	-	3.2
as at end of period	21.4	20.0	23.2

Investments in associates are generally deemed non-current. Key financial information for Sirocco is as follows:

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
assets	133.5	116.9	124.6
liabilities	31.8	19.4	14.3
revenues	29.5	3.1	18.6
profit	25.9	2.5	15.2

12. insurance and reinsurance contracts

insurance liabilities	\$m	\$m	\$m	\$m
	losses and adjustment expenses	unearned premiums	other payables	total
as at december 31, 2005	-	2.6	-	2.6
movement in period	7.4	241.4	-	248.8
as at june 30, 2006	7.4	244.0	-	251.4
movement in period	31.7	81.7	3.6	117.0
as at december 31, 2006	39.1	325.7	3.6	368.4
movement in period	82.6	128.4	2.6	213.6
as at june 30, 2007	121.7	454.1	6.2	582.0
reinsurance assets and liabilities	\$m	\$m	\$m	\$m
	unearned premium on premium ceded	reinsurance recoveries	amounts payable to reinsurers	total
as at december 31, 2005	-	-	-	-
movement in period	60.4	-	(32.0)	28.4
as at june 30, 2006	60.4	-	(32.0)	28.4
movement in period	(41.3)	-	29.6	(11.7)
as at december 31, 2006	19.1	-	(2.4)	16.7
movement in period	44.4	0.5	(58.4)	(13.5)
as at june 30, 2007	63.5	0.5	(60.8)	3.2

The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. In particular, due to the short tail nature of the Group's business and the currently mostly attritional losses reported, significant variations in reserving assumptions have little impact on the ultimate number. However, the impact of an unreported event or a significant event could lead to a significant increase in our loss reserves. Management believes that the loss reserves established as at June 30, 2007 are adequate, however a 20% increase in estimated losses would lead to a \$24.3 million (June 30, 2006 - \$1.4 million; December 31, 2006 - \$7.8 million) increase in net loss reserves.

The split of losses and loss adjustment expenses between notified outstanding losses and losses incurred but not reported is shown below:

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
outstanding losses	38.3	-	1.2
losses incurred but not reported	83.4	7.4	37.9
losses and loss adjustment expenses reserves	121.7	7.4	39.1

It is estimated that our reserve for unpaid claims and adjustment expenses has an approximate duration of one year.

13. letters of credit

As both LICL and LICUKL are not admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide letters of credit to policyholders as collateral. On May 17, 2006, LHL and LICL entered into a syndicated collateralised three year credit facility in the amount of \$350 million. This was re-financed on July 16, 2007 to a syndicated collateralised five year credit facility in the amount of \$200 million. This facility is available for the issue of letters of credit ("LOC's") to ceding companies. The facility is also available for LICL to issue LOC's to LICUKL to collateralise certain insurance balances. It contains a \$75.0 million loan sub-limit available for general corporate purposes. As at June 30, 2007, LICUKL had no such obligations (June 30, 2006 and December 31, 2006 - \$nil). Letters of credit totalling \$70.3 million (June 30, 2006 - \$nil; December 31, 2006 - \$25.1 million) had been issued to third parties by LICL and there was no outstanding debt under this facility. Letters of credit are required to be fully collateralised. As at June 30, 2007 \$95.5 million (June 30, 2006 - nil; December 31, 2006 - \$25.1 million) of collateral had been posted to a trust account, the beneficiary of which are the banks who have issued letters of credit on our behalf. Under the terms of the facility, investments in the trust account are subject to various discounts. The discounts are determined per investment type.

14. derivative financial instruments

The Group hedges a portion of its floating rate borrowings using interest rate swaps to transfer floating to fixed rate. These instruments are held at fair value through the consolidated income statement. During the period, \$0.9 million (June 30, 2006 - \$nil; December 31, 2006 - \$1.0 million charge) was credited to financing costs in respect of the interest rate swap. The net fair value position to the Group was \$0.1 million (June 30, 2006 - \$nil; December 31, 2006 - \$0.9

million). The Group has the right to net settle this instrument. The next cash settlement due on this instrument is negligible (June 30, 2006 and December 31, 2006 – negligible) and is due on September 17, 2007.

The Group invests a small portion of its investment portfolio in convertible debt securities. The option to convert is an embedded derivative, which is required to be separated from the host contract and fair valued through the condensed interim consolidated income statement. As at June 30, 2007 the derivative instrument was valued at \$8.8 million (June 30, 2006 - \$nil; December 31, 2006 - \$11.5 million), with net unrealised gains of \$0.3 million (June 30, 2006 - \$nil; December 31, 2006 - \$1.8 million) reflected in the condensed interim consolidated income statement in other investment income.

The Group entered into a contingent equity physically settled put option on June 13, 2007. The option gives the Group the right to put up to 9,786,000 shares to the counterparty at a guaranteed price of \$5.00 per share or the available market rate, if higher. The option expires on November 30, 2007. There is no obligation to exercise the option. As at June 30, 2007 the option had not been exercised and was valued at \$0.4 million with a net unrealised loss of \$1.1 million reflected in the condensed interim consolidated income statement. During the period \$1.1 million was charged to financing costs in respect of the option.

15. warrants and options

Management warrants and options are discussed in note 6. On April 25, 2007, 127,087 ordinary warrants were exercised on a cashless basis at a strike prices of \$5.00 per share, resulting in the Group issuing a further 32,640 common shares at \$0.50 per share. On December 28, 2006, 113,219 ordinary warrants were exercised on a cashless basis at a strike price of \$5.00 per share, resulting in the Group issuing a further 29,444 common shares at \$0.50 per share.

16. earnings per share

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
profit for the period attributable to equity shareholders	170.4	39.3	159.3
	number of shares thousands	number of shares thousands	number of shares thousands
basic weighted average number of shares	195,752	195,714	195,714
potentially dilutive shares related to share-based compensation	9,929	4,195	6,325
diluted weighted average number of shares	205,681	199,909	202,039

17. related party disclosures

The condensed interim consolidated financial statements include Lancashire Holdings Limited and the subsidiaries listed below:

name	domicile
Lancashire Insurance Company Limited	Bermuda
Lancashire Insurance Marketing Services Limited	United Kingdom
Lancashire Holdings Financing Trust I	United States
Lancashire Insurance Holdings (UK) Limited	United Kingdom
Lancashire Insurance Company (UK) Limited	United Kingdom
Lancashire Insurance Services Limited	United Kingdom
Lancashire Marketing Services (Middle East) Limited	United Arab Emirates

All subsidiaries are wholly owned, either directly or indirectly.

key management compensation

Remuneration for key management was as follows:

	six months 2007 \$m	six months 2006 \$m	twelve months 2006 \$m
short-term compensation	2.2	0.8	4.5
share based compensation	4.6	7.5	12.1
total	6.8	8.3	16.6

transactions with directors and shareholders

Significant shareholders have a representation on the Board of Directors. During the period the Group paid \$0.5 million (June 30, 2006 - \$0.3 million; December 31, 2006 - \$0.9 million) in directors' fees and expenses, including \$0.2 million (June 30, 2006 - \$0.2 million; December 31, 2006 - \$0.4 million) to significant shareholders. A further \$0.1 million (June 30, 2006 - \$0.2 million; 2006 - \$0.3 million) was paid in respect of monitoring fees for significant shareholders pursuant to Monitoring Agreements, the terms of which are as disclosed in the AIM admission document.

transactions with associate

During the period the Group ceded \$25.6 million (June 30, 2006 - \$22.2 million; December 31, 2006 - \$29.9 million) of premium to Sirocco and received \$2.9 million (June 30, 2006 - \$4.3 million; December 31, 2006 - \$5.4 million) of commission income. The following amounts relating to Sirocco were included in the condensed interim consolidated balance sheet:

	jun 30, 2007 \$m	jun 30, 2006 \$m	dec 31, 2006 \$m
unearned premium on premium ceded	22.4	19.4	11.8
amounts payable to reinsurers	22.5	17.9	0.8
deferred acquisition costs ceded	2.3	3.8	2.2

Profit commission is payable to the Group based on the performance of Sirocco over the period January 1, 2006 to July 15, 2008. The contingent profit commission as at June 30, 2007 was \$6.2 million (June 30, 2006 - \$0.5 million; December 31, 2006 - \$2.6 million).

18. statutory requirements and dividend restrictions

As a holding company, LHL relies on dividends from its subsidiaries to provide cash flow required for debt service and dividends to shareholders. The subsidiaries' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdiction in which they operate. For the primary operating subsidiaries these are based principally on the amount of premiums written and reserves for losses and loss expenses, subject to overall minimum solvency requirements. Statutory capital and surplus is different from shareholders' equity due to certain items that are capitalised under IFRS but expensed, have a different valuation basis, or are not admitted under insurance regulations.

Annual statutory capital and surplus reported to regulatory authorities by the primary operating subsidiaries was as follows:

as at december 31, 2006	\$m	£m
	LICL	LICUKL
statutory capital and surplus	1,079.2	56.3
minimum required statutory capital and surplus	271.1	7.4

Statutory capital and surplus during the year was as follows:

as at june 30, 2007	\$m	£m
	LICL	LICUKL
statutory capital and surplus	1,238.4	55.3
minimum required statutory capital and surplus	175.6	13.8

as at june 30, 2006	\$m	£m
	LICL	LICUKL
statutory capital and surplus	1,090.8	-
minimum required statutory capital and surplus	100.0	-

In addition, LICL is required to maintain a minimum liquidity ratio, whereby relevant assets, as defined in the Act, must exceed 75% of relevant liabilities. As at June 30, 2007, June 30, 2006 and December 31, 2006 the liquidity ratio was met.

For LICUKL, various capital calculations are performed and an individual assessment of LICUKL's capital needs (an "ICA") is presented to the FSA. The FSA then considers the capital calculations and issues an individual capital guidance ("ICG"), reflecting the FSA's own view as to the level of capital. The FSA considers that a decrease in an insurance company's capital below the level of its ICG represents a regulatory intervention point.

19. presentation

Certain comparative amounts in the June 30, 2007 condensed interim consolidated financial statements have been re-presented to conform with the current period's presentation and format. These changes in presentation have no effect on the previously reported net profit.

INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS

LANCASHIRE HOLDINGS LIMITED

Introduction

We have reviewed the accompanying interim condensed financial statements of Lancashire Holdings Limited and its subsidiaries (the "Group") as at June 30, 2007, comprising of the interim consolidated balance sheet as at June 30, 2007 and the related interim consolidated statements of income, changes in equity and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

/S/ ERNST&YOUNG LTD

August 8, 2007
Hamilton, Bermuda

Shareholder information

The additional information consisting of the shareholder information and directors and advisers has been prepared from the records of the Group. While it does not form part of the interim statement, it should be read in conjunction with it and with the responsibilities section of the independent review report thereon.

Financial Calendar

2008

February / March Announcement of results for the year ending 31 December 2007

Shareholder enquiries, register and website

Please contact us at investors@lancashire.bm or, for enquiries concerning share registration, call our Registrar, Capita IRG (Offshore) Limited on 01534-463-2363. The Group's website can be accessed at www.lancashiregroup.com

Directors and Advisers

Directors

Martin Thomas (Chairman)
Richard Brindle (CEO)
Neil McConachie
Ralf Oelssner
Robert Spass
William Spiegel
Barry Volpert

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Audit Committee

Robert Spass (Chairman)
Ralf Oelssner
William Spiegel

Auditors

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Remuneration Committee

William Spiegel (Chairman)
Ralf Oelssner

Registrar

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Jersey

Nomination Committee

Robert Spass (Chairman)
Richard Brindle
Martin Thomas
Barry Volpert

Investment Committee

Robert Spass (Chairman)
Neil McConachie
Barry Volpert

Underwriting Committee

Richard Brindle

Ralf Oelssner

Martin Thomas

Simon Burton - Non Director

Bryan Bumsted - Non Director

Charles Mathias - Non Director

Secretary

Gregory Lunn