

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

# Lancashire Holdings Limited

(Incorporated and registered in Bermuda under registration number EC37415)

## **NOTICE OF ANNUAL GENERAL MEETING**

**If you are in any doubt about the contents of this document or as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser. The whole text of this document should be read.**

If you have sold or transferred all of your common shares in the capital of Lancashire Holdings Limited ("Common Shares"), please forward this document containing the Letter from the Chairman, Notice of AGM, together with the accompanying Form of Proxy, Form of Direction and the 2010 Annual Report and Accounts to the stockbroker, bank or other agent who arranged the sale or transfer for transmission to the purchaser or transferee. If you have sold or transferred part of your holding of Common Shares you are advised to consult your stockbroker, bank or other agent who arranged the sale or transfer.



Notice of the Annual General Meeting of Lancashire Holdings Limited to be held at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda on 5 May 2011 at 1pm (Bermuda time) is set out on page 4 of this document. Holders of Common Shares ("Shareholders") will find enclosed a Form of Proxy for use at the Annual General Meeting. Holders of depository interests in the Common Shares will find a Form of Direction by which they can instruct Capita IRG Trustees Limited ("Capita") to vote in respect of their interest. To be valid, the enclosed Form of Proxy must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the holding of the Annual General Meeting. To be valid the Forms of Direction must be received not later than 72 hours before the time appointed for the holding of the Annual General Meeting.

**Your attention is drawn to the letter from the Chairman of Lancashire Holdings Limited which is set out on pages 1 to 3 of this document recommending that you vote in favour of the resolutions to be proposed at the Annual General Meeting.**

## **LETTER FROM THE CHAIRMAN OF LANCASHIRE HOLDINGS LIMITED (the "Company")**

(Incorporated and registered in Bermuda under registration number EC37415)

Directors:

**Richard Brindle**, Chief Executive Officer

**Neil McConachie**, President

**Alex Maloney**, Chief Underwriting Officer

**John Bishop**, Non-Executive Director

**Emma Duncan**, Non-Executive Director

**Ralf Oelssner**, Senior Independent Director

**Robert Spass**, Non-Executive Director

**William Spiegel**, Non-Executive Director

**Martin Thomas**, Chairman

Registered Office:  
Power House  
7 Par-la-Ville Road  
Hamilton HM 11  
Bermuda

**14 March 2011**

### **To Shareholders and for information only to holders of depository interests:**

Dear Shareholder,

#### **Annual General Meeting**

The notice for the Annual General Meeting ("AGM") of the Company to be held at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda on 5 May 2011 at 1pm (Bermuda time) is set out on page 4 ("Notice of AGM").

#### **Proposed Business of the AGM**

##### **1. Accounts and Auditors (Resolutions 1, 2, 3 and 4)**

Resolutions are proposed to receive and consider the Company's audited consolidated financial statements and to approve the Directors' Remuneration Report for the year ended 31 December 2010 which are contained in the Annual Report and Accounts (**Resolutions 1 and 2**), to reappoint the Company's auditors (**Resolution 3**), and to authorise the Company's board of directors (the "Board") to establish the level of auditors' remuneration (**Resolution 4**).

##### **2. Re-election of Directors (Resolutions 5, 6, 7 and 8)**

Pursuant to the Company's Bye-laws 47.2 and 49.1 Emma Duncan and Alex Maloney, who were appointed by the Board as directors of the Company on 4 August 2010 and 5 November 2010 respectively, shall retire at the AGM and are thus eligible for re-election.

In addition, pursuant to Bye-law 49.2 of the Company's Bye-laws, one-third of the Directors (or, if their number (excluding, for this purpose, Directors eligible for re-election under Bye-law 47.2) is not three or a multiple of three, the number nearest to, but (except where less than three Directors are subject to retirement by rotation) not greater than, one-third) shall retire from office by rotation at each AGM. The Directors eligible for re-election are those who have been longest in office since their last re-election or appointment. The Directors selected for retirement at the AGM pursuant to Bye-law 49 are Richard Brindle and Robert Spass. Both Richard Brindle and Robert Spass have offered themselves for re-election.

The Board, having conducted a formal performance evaluation, is satisfied with the performance of each of Emma Duncan, Alex Maloney, Richard Brindle and Robert Spass who are Directors of the Company and proposes their re-election for a further term to be determined in accordance with the Company' Bye-laws.

Further information about the performance evaluation process and Emma Duncan, Alex Maloney, Richard Brindle and Robert Spass is set out in the accompanying 2010 Annual Report and Accounts.

### **3. Grant of general and unconditional authority to allot shares (Resolution 9)**

Pursuant to Bye-law 2.4 of the Company's Bye-laws, the Board is seeking Shareholders' approval proposed to grant the Directors a general and unconditional authority to allot and issue unissued common share capital up to an aggregate nominal value of \$28,100,404, an amount equal to approximately one-third of the issued common share capital of the Company as at the date of this document. The Directors of the Company have no present intention of issuing any of the authorised but unissued common share capital of the Company pursuant to this authority, but believe it to be in the best interests of the Company for the Board to be granted this authority to take advantage of appropriate opportunities.

The authority granted by this resolution will be exercised only if the Directors of the Company believe that to do so would be in the best interests of the Company. Unless otherwise renewed or revoked by the Shareholders in general meeting this authority will expire at the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed.

### **4. Grant of authority to allot shares for cash on a non pre-emptive basis (Resolution 10)**

Pursuant to Bye-law 2.6 of the Company's Bye-laws, the Board is seeking Shareholders' approval to grant authority for the Directors of the Company to allot and issue Common Shares up to an aggregate nominal value of \$8,430,121 on a non pre-emptive basis, such amount being approximately 10 per cent of the Company's issued share capital as at the date of this document. The Bye-laws of the Company require that, unless Shareholders resolve otherwise, any Equity Securities (as defined in Bye-law 2.5(g)) allotted for cash must be offered to existing Equity Shareholders *pro rata* to their existing shareholdings. The Bye-laws permit this requirement to be disapplied and the purpose of this resolution is to authorise the Board to issue Common Shares as if such provisions did not apply in certain circumstances, when the Board considers that to do so would be in the best interests of the Company. The Board notes that the amount of the pre-emption disapplication for which authority is requested is above the 5% level which is considered routine by UK investor groups. However, in line with the principles published by the UK Pre-emption Group, which are supported by UK investor groups, the Board requests Shareholders to consider the specific business case, including rating agency and regulatory capital requirements applicable to insurance companies, for authorising the larger disapplication so that the Company will have the ability quickly to issue this larger number of Common Shares should the need for additional capital arise. The Board considers that it is in the best interests of the Company to be able to raise additional capital by non pre-emptive share issues in order to maintain its A.M. Best rating following large loss events. In addition, the cyclical nature of the insurance market and the impact of loss events on pricing and capacity means the Company should position itself to be able to take advantage of underwriting opportunities when they present themselves, for instance following large industry losses. The Board notes that the Company writes a diverse portfolio of insurance business and it is therefore appropriate for the Company to position itself to be able quickly to take advantage of market opportunities or react to loss events throughout the year and not just during the hurricane season. If the Company requires additional capital the Board will consider alternative financing methods to determine the most appropriate means of raising capital before carrying out a non pre-emptive issue of shares. The Board has no immediate intention to use this authority. However, if, as anticipated, current capital levels are reduced in the short-term by returns to shareholders, the Board considers that it is important to provide the Company with immediate access to a full range of financing options both from a risk management perspective and to reinforce the Company's strategy of managing capital actively and prudently. In addition, in accordance with best practice and the advice of UK investor groups, the Board does not intend to use any Common Shares pursuant to this authority at a discount of greater than 5% of the market price at the time of this issue. The Board has no current intention of exercising this authority but considers it desirable due to the flexibility it will afford. Unless otherwise renewed or revoked by the Shareholders in general meeting this authority will expire at the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed.

### **5. Resolution to authorise the Company to purchase its own shares (Resolution 11)**

The Board is seeking Shareholders' approval to renew the authority granted to the Company by the Shareholders at the Annual General Meeting held on 4 May 2010. Pursuant to such authority, the Company is generally and unconditionally authorised to make one or more market purchases of the issued Common Shares of the Company up to an aggregate nominal value of \$8,430,121, an amount equal to approximately 10 per cent of the issued Common Share capital of the Company as at the date of this document, at a price of not less than the nominal value of the Common Shares (exclusive of expenses payable by the Company). The maximum price per Common Share (exclusive of expenses payable by the Company) that may be paid under the authority shall not exceed

the higher of (i) 5 per cent above the average of the closing middle market quotations of the Company's Common Shares derived from the London Stock Exchange Daily Official List for the 5 business days before the purchase is made and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid for the Common Shares on the London Stock Exchange at the time of purchase. Purchases may otherwise be made in such manner and on such terms as the Board or any authorised committee may from time to time determine. Purchases would only be made if the effect would be expected to improve earnings per share and the Board considers that it would be in the best interests of the Company to do so. Pursuant to the Bye-laws of the Company, no purchase can be made if the Board determines that it would result in a non-*de minimis* adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any holder of shares or its affiliates.

The Company cannot by law (in respect of the par value of the shares to be purchased) purchase its own shares except out of:

- (a) the capital paid up thereon; or
- (b) the funds of the Company which would otherwise be available for dividend payment or distribution; or
- (c) the proceeds of a fresh issue of shares made for the purpose of the repurchase, and

the premium if any payable on the repurchase is provided out of the funds of the Company which would otherwise be available for dividend payment or distribution or out of the Company's share premium account before the repurchase date.

Unless otherwise renewed or revoked by the Shareholders in general meeting this authority will expire on the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed.

This resolution complies with the current guidance issued by the Association of British Insurers ("ABI") and the Board will have regard to any guidance issued by the ABI which may be published at the time of any such purchase of issued Common Shares of the Company.

### **Voting**

Shareholders will find enclosed with this document a Form of Proxy for use in connection with the AGM. You are requested to complete the Form of Proxy in accordance with the instructions printed thereon and to return it to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the holding of the AGM. The return of a completed Form of Proxy will not preclude you from attending the AGM and voting in person, should you so wish.

Holders of depository interests in the Company wishing to instruct Capita to vote in respect of the holder's interest should use the enclosed Form of Direction. The completed Form of Direction must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 72 hours before the time appointed for the holding of the AGM.

### **Record Date and Adjustment of Voting Power**

Only Shareholders entered on the register of members of the Company at 5.00pm (Bermuda time) on 18 March 2011 shall be entitled to attend and vote at the meeting in respect of the number of Common Shares registered in their name at that time. Changes to entries on the register of members after 5.00pm (Bermuda time) on 18 March 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting. The length of time between the record date and the AGM is necessary to allow sufficient time to complete the Shareholder ownership analysis and any voting cut-back calculations related to US 9.5% Shareholders as required by Bye-laws 40 and 41 of the Company's Bye-laws.

### **Recommendation**

The Directors of the Company believe that the resolutions set out in the AGM Notice are in the best interests of the Company and its Shareholders as a whole and recommend that you vote in favour of them. Each Director who holds Common Shares in the Company intends to vote in favour of the resolutions in respect of his own shareholdings.

Yours faithfully,

**Martin Thomas**  
**Chairman**

## LANCASHIRE HOLDINGS LIMITED (THE "COMPANY")

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda on 5 May 2011 at 1pm (Bermuda time), for the purpose of considering and, if thought fit, passing the following resolutions:

1. To receive and consider the Company's audited consolidated financial statements for the year ended 31 December 2010.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2010.
3. To re-appoint Ernst & Young LLP of 1 More London Place, London SE1 2AF, England as auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which the Company's financial statements are presented.
4. To authorise the board of Directors, who may delegate this authority to the board's audit committee, to establish the auditors' remuneration.
5. To elect Emma Duncan as a Director of the Company to hold office for a further term to be determined in accordance with the Company's Bye-laws.
6. To elect Alex Maloney as a Director of the Company to hold office for a further term to be determined in accordance with the Company's Bye-laws.
7. To re-elect Richard Brindle as a Director of the Company to hold office for a further term to be determined in accordance with the Company's Bye-laws.
8. To re-elect Robert Spass as a Director of the Company to hold office for a further term to be determined in accordance with the Company's Bye-laws.
9. To grant the Directors of the Company a general and unconditional authority to allot and issue unissued common share capital, pursuant to Bye-law 2.4 of the Company's Bye-laws, up to an aggregate nominal value of \$28,100,404, an amount equal to approximately one-third of the issued common share capital of the Company as at the date of this document, provided that, unless otherwise renewed or revoked in general meeting, this authority will expire at the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed.

**To consider, and if thought fit, pass the following resolutions as Special Resolutions (as defined in the Company's Bye-laws):**

10. That the Directors of the Company be authorised, in accordance with Bye-law 2.6 of the Company's Bye-laws, to allot and issue Common Shares on a non pre-emptive basis up to an aggregate nominal value of \$8,430,121, such amount being approximately 10 per cent of the Company's issued share capital as at the date of this document, provided that, unless otherwise renewed, or revoked by the Shareholders in general meeting this authority will expire at the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed.
11. That the Company be generally and unconditionally authorised, in accordance with Bye-law 3 of the Company's Bye-laws and pursuant to section 42A of the Companies Act of Bermuda, to make one or more purchases of Common Shares in such manner and on such terms as the Directors of the Company or any authorised committee may from time to time determine provided that:
  - (a) the maximum number of Common Shares hereby authorised to be purchased shall be 16,860,242 (representing approximately 10 per cent of the issued Common Share capital of the Company as at the date of this Notice);
  - (b) the minimum price (exclusive of expenses payable by the Company) which may be paid for a Common Share shall be US\$0.10;
  - (c) the maximum price (exclusive of expenses payable by the Company) which may be paid for a Common Share shall be the higher of:
    - (i) 5 per cent above the average of the closing middle market quotations for a Common Share of the Company taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Common Share is contracted to be purchased; and
    - (ii) the higher of the price of the last independent trade and the highest current independent bid for the Common Shares on the London Stock Exchange at the time of purchase as stipulated by Article 5(1) of the Commission Regulation (EC) No.2273/2003 of 22 December 2003 implementing the Market Abuse Directive (Directive 2003/6/EC of the European Parliament and of the Council) as regards exemptions for buy-back programmes and stabilisation of financial instruments;

- (d) unless otherwise renewed or revoked by the Shareholders in a general meeting this authority will expire on the conclusion of the AGM of the Company in 2012 or, if earlier, 15 months from the date the relevant resolution is passed; and
- (e) the Company shall be entitled under such authority to make at any time before its expiry or termination any contract to purchase its own shares which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Common Shares in pursuance of any such contract.

**BY ORDER OF THE BOARD**

**Greg Lunn**  
**Company Secretary**

14 March 2011

Registered Office:  
Power House  
7 Par-la-Ville Road  
Hamilton HM 11  
Bermuda

Registration number:  
EC37415

**Notes:**

- (i) A Shareholder entitled to attend and vote at the meeting convened by this notice or any adjournment thereof is entitled to appoint one or more proxies to attend and to vote instead of him. A proxy need not be a member of the Company.
- (ii) To be valid, the enclosed Form of Proxy must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the holding of the Annual General Meeting.
- (iii) Any holders of depository interests in the Company wishing to instruct Capita to vote in respect of the holder's interest should use the enclosed Form of Direction. The completed Form of Direction must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 72 hours before the time appointed for the holding of the Annual General Meeting.
- (iv) Only those Shareholders entered on the register of members of the Company at 5.00pm (Bermuda time) on 18 March 2011 shall be entitled to attend and vote at the meeting in respect of the number of Common Shares registered in their name at that time. Changes to entries on the register of members after 5.00pm (Bermuda time) on 18 March 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

**LANCASHIRE HOLDINGS LIMITED**

Power House  
7 Par-la-Ville Road  
Hamilton HM 11  
Bermuda

**Tel** 441 278 8950  
**Fax** 441 278 8951/8961